Business travel

Russia's new airlines take to the sky

Page 12

Turkey takes off

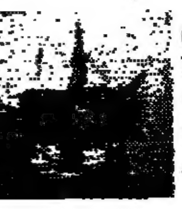
Why its stock market is a star performer

Emerging markets, Page 30

Where there's smoke

EU ministers tackle tobacco advertising

Page 20



Oil and gas industry

Bad news and good as the mood swings

Survey, Pages 31-33

FINANCIAL TIMES

Europe's Business Newspaper MONDAY DECEMBER 13 1993 D8523A

EU ready to begin drive for boost in jobs and growth

More than 60 ministers arrive in Brussels today to begin enacting ambitious plans for reviving employment and growth in the European Union and to resolve damaging internal differences over trade. The plans were agreed at the Brussels summit which ended on Saturday with a semblance of political unity and widespread praise for Commission president Jacques Delors. Page 22; Summiteers at odds, Page 2; EU pledge, Page 3; Editorial Comment, Page 21; Lightness of touch, Page 21

Telecoms bidders: Five leading international telecommunications operators are to be invited to bid for one of the largest service contracts ever awarded in Europe. Page 22

Frei wins presidency in Chile:

Chilean newspapers hailed Eduardo Frei's overwhelming victory in presidential elections as he said his first act on taking power would be to work to end poverty. Final results showed that Frei, candidate of outgoing President Patricio Aylwin's ruling centre-left coalition, won 58 per cent of Saturday's vote. Page 6

Policemen murdered: UK prime minister John Major faced conflicting pressures from Dublin and Ulster Unionists as the weekend murder by the Irish Republican Army of two Northern Ireland police cast a shadow over the Anglo-Irish peace initiative. Page 22

Basle proposals criticised: Leading banks have stepped up their criticism of proposals from the Basle-based committee of international regulators to make them set aside additional capital to cover risks in foreign exchange, securities and derivatives trading. Page 23

China warns Patten: The war of words between China and Britain over Hong Kong escalated, with a senior Chinese official suggesting for the first time that Governor Chris Patten's democracy plans for the colony could provide a pretext for an early Chinese takeover there. Page 7

Hungarian premier dies: Prime minister Jozsef Antall, 61, leader of Hungary's first post-communist government, died in hospital in Budapest after a long fight against cancer. Page 6

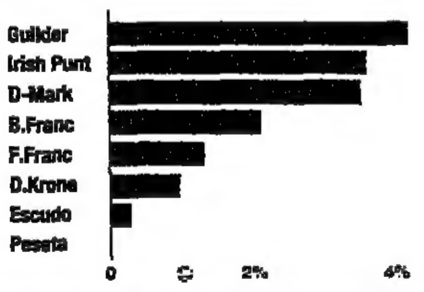
Renault go-ahead: The privatisation of Renault will go ahead as planned in spite of the failure of its merger with the car and truck activities of Volvo of Sweden, French industry minister Gérard Longuet said. Page 26

Gore itinerary changed: Fog at Alma Ata in Kazakhstan forced US vice-president Al Gore to travel instead to Kyrgyzstan at the start of a four-nation visit to the former Soviet Union.

Investments shift: Fund managers are increasing their investment in UK and US equities at the expense of Japan and continental Europe, according to the latest Smith New Court/Gallup survey released today. Page 24

European Monetary System: The Dutch guilder last week became the strongest currency in the system, pushing the Irish punt into second place. Its disparity with the Spanish peseta, the grid's weakest member, was some 3.98 per cent. The currency market's focus this week will be on the Gatt world trade talks and Thursday's meeting of the Bundesbank's central bank council, where Germany's central bank will announce its M3 money supply target for 1994. Currencies, Page 39; Lex, Page 22

EMS: Grid December 10, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

US withdrawal: The US announced it will withdraw about 2,600 of its 8,200 troops from Somalia by Christmas. The news came as Somali gunmen wounded two US military police in Mogadishu.

Boost for Lloyd's: Amalgamated Banks of South Africa will today announce a $19.4m investment in a Lloyd's insurance subsidiary, providing a much needed fillip for the insurance market's initiative to attract corporate capital. Page 24

Coal strike nears end: Members of the United Mine Workers of America look set to agree an end to the seven-month US coal strike. Page 6

Airlines settle: Canadian Airlines International and American Airlines have settled their dispute with the Gemini computerised reservations system, bringing the two carriers within reach of a long-delayed alliance. Page 26

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lev25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45		
Cyprus	C£1.00	India	Rs51	Nigeria	Naira45	South Africa	R12.00		
Czech Rp	CZK45	Israel	Shk8.30	Norway	NKr16.00	Spain	Pta210		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20		
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00		
France	FFr6.00	Kuwait	Fils600	Poland	Zl 32,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	Turkey	L9000		
						UAE	Dh11.00		

Narrow win for constitution ■ Strong support for extremist parties

Yegor Gaidar and his wife Maria (left) arrive to vote, a Russian father and son (centre) ponder a ballot paper and hardline Communists gather in Red Square AP/Reuter

Voters back Yeltsin reforms

By John Lloyd and Leyla Boulton in Moscow, and Chrystia Freeland in Sverdlovsk

Russian voters yesterday narrowly approved plans for a reformed constitution which would give strong powers to President Boris Yeltsin, according to exit polls.

However, the elections for the Russian parliament showed fragile support for radical reform. The Communist party and the neo-fascist Liberal Democratic party of Mr Vladimir Zhirinovsky were the main beneficiaries of a low turn-out.

Germany's ARD public television news last night reported an exit poll carried out by Russian polling institutes as showing that 23 per cent had voted for the reformist Russia's Choice, 17 per cent for the Communists and 13 per cent for the Liberal Democrats. These results would give Russia's Choice just 61 of the 225 seats in the lower house reserved for the parties. The Communists and the Liberal Democrats combined would get 70 seats.

Amid the welter of conflicting exit polls, it is clear that none of the reformists, including Mr Yegor Gaidar's Russia's Choice, would win a convincing popular mandate. Extremist parties will be strongly represented in the new parliament.

The reformers' weak showing will be offset if the apparent vote in favour of President Yeltsin's constitution materialises. Soon

Page 8
■ Presidential power in voters' hands
■ Soldiers look for leadership
Page 9
■ Folks tire of Yeltsin

after the polls closed, Mr Sergei Filatov, the president's chief of staff, claimed that over half the electorate had voted: the first hurdle for the constitution. The constitution appears to have been solidly approved. ARD said that 71 per cent of those voting had voted for it.

However President Yeltsin appears to have won by only the narrowest of margins. The large city of Ekaterinburg, the president's home town did not register a 50 per cent turn-out, while even St Petersburg, Russia's second city, was struggling to get over half the voters out. In Moscow, a 50 per cent of voters turned out with less than two hours to go and voting dwindling to a thin trickle.

The president's office said the turnout in rural areas was higher than that in the cities, a bad sign for the reformers, who rely on a more radical urban vote for their support.

Mr Zhirinovsky's Liberal Democrats were repeatedly reported as coming second. In the desolate eastern regions, among servicemen and in individual rural districts, it was sometimes first.

Mr Zhirinovsky, who has surged from around 2 per cent when the campaign began in November to a position in the last opinion polls just behind Russia's Choice, ran a high-energy and apparently well-financed TV campaign.

He promotes a blend of imperialistic bombast, wild promises of instant cures for the economy and a scabrous and witty commentary on the progress of reform – a mixture which appears to have caught on, and which he can be expected to continue from the parliamentary

Continued on Page 22

Reformist disunity benefits nationalists

By Leyla Boulton in St Petersburg

If the charismatic neo-fascist, Mr Vladimir Zhirinovsky, scores as well as expected today in Russia's first multi-party elections, he can thank his reformist opponents in cities such as St Petersburg.

Traditionally a bastion of support for reform, the weekend elections in Russia's second city displayed all the ingredients of what its mayor, Mr Anatoly Sobchak, yesterday described as a "lesson" for the country's divided and disorganised democrats.

Not only did the reformist parties fail to unite around their pro-market and pro-democracy convictions, they also proved unable to counter Mr Zhirinovsky's populist promises with a coherent message of their own.

"Only Zhirinovsky articulated clear phrases setting out what he plans to do," claimed Nadya, a speech therapist who justified voting for him by describing the 12 other parties in the election as "an amorphous mass".

Selling painful market reforms is harder than promising instant economic well-being, an end to crime and the restoration of national greatness – as Mr Zhirinovsky has done with great skill. A potent cocktail of poverty and intellectual disillusionment with the reformers has created the potential for a fascist surge.

But few reformists would argue they ran a good campaign.

Nowhere was this clearer than in St Petersburg's Central constituency, where Mr Alexander Nevzorov, a popular ultra-nationalist whose vitriolic "600 Seconds" TV show was recently taken off the air, stood against two democrats who seemed more intent on knocking each other out than on stopping him.

In an election where there will be no run-off, disciplined extremists could only benefit.

Unlike the pro-government Russia's Choice bloc, and the reformist Yabloko bloc, Mr Zhirinovsky had no problem ordering his representative to stand down in favour of Mr Nevzorov, who has gleefully called these elections President Boris Yeltsin's "first mistake".

A similar spectacle of democratic ineptitude in the city's Northern constituency bordered on the farcical. There voters faced a record choice of 20 candidates for just one seat in the new State Duma, or lower chamber.

Of them only four were attached to a party – including Mr Zhirinovsky's ubiquitous Liberal Democrats. Yet Russia's Choice was not among them. The other 16 represented themselves – with primitive platforms ranging from "common sense" to "the restoration of Soviet power and the elimination of presidential power as genetically alien to the people of Russia".

Against this confusion, the city's poverty offered a powerful incentive for a backlash against the recent market reforms.

Hold-up in Israeli pull-out hits Mideast peace process

By Mark Nicholson in Cairo and Julian Ozanne in Jerusalem

The Middle East peace process suffered a clear setback yesterday after Israel delayed pulling out its troops from Gaza and Jericho.

The decision came after Mr Yitzhak Rabin, the Israeli prime minister, and Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, failed to agree the security details of the withdrawal.

The Israeli troops were due to pull out today under the outline peace deal signed in Washington in September.

The two leaders, speaking at separate press conferences after more than two hours of talks, said only that they had agreed to meet again in Cairo in 10 days.

Mr Rabin said the main differences were "who is responsible for the lines dividing the territories and Jordan and Egypt, the problem of difficulties at the border, and the size of Jericho".

The delay to the pull-out will raise the prospect of increased violence in Gaza and the West Bank. Mr Faisal Husseini, PLO chief for the West Bank, warned that without positive results from the summit and a serious set of gestures today "the whole region will be on the brink of a volcano".

Mr Arafat appeared particularly dejected after the talks. Asked if the failure to meet the original deadline for the start of an Israeli withdrawal might spark further clashes, Mr Arafat replied only: "I hope not".

However, Mr Rabin said he hoped that agreement could be reached at their next meeting. He said: "I don't see any reason why in 10 days from now we cannot reach agreement on these issues."

Asked why he believed agreement might then be possible where it was not yesterday, he replied only: "I have some reasons, I will not explain them."

Mr Arafat, pressed for any likelihood of progress within the next 10 days, said only that "the most important thing is that we are both committed to the declaration of principles" signed in Washington.

Both men said discussions would continue on economic co-operation in Paris, and on the transfer of authority from Israeli to Palestinian administration in Gaza and Jericho in El Arish, the Egyptian resort.

Mr Rabin said he was confident the full withdrawal could still be comfortably accomplished before the April 13 deadline outlined in the peace accord.

Before Mr Rabin left for Cairo he had told a cabinet meeting he would compromise with Mr Arafat on the size of the Jericho area but would not concede control over border crossings. Mr Rabin also said differences over security for the main Israeli settlement in Gaza could be resolved.

US and EU under attack over Gatt delays

By David Dodwell in Geneva and David Gardner in Brussels

The US and European Union were accused yesterday of blocking progress in the Uruguay Round of trade reform talks.

Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, said: "Success is tantalisingly close but dangerously at risk because of a small number of issues that bedevil the agreement."

The issues separating the two "pale into insignificance against what has already been agreed," he insisted. "It is time for recognition that they have an obligation to lead. That means taking difficult decisions, recognising overall priorities and not allowing issues to be obfuscated by comparatively small matters."

US and European Union trade negotiators continued talking in Geneva yesterday evening in a nerve-racking game of brinkmanship that appeared to leave the successful outcome of the trade talks by the December 15 deadline in the balance.

From a breakfast-time disclosure by Sir Leon Brittan, the EU trade commissioner, that talks were "in crisis" in spite of four hours of discussion by trade ministers from Canada, the US, Japan and the EU on Saturday, the mood seesawed through the day as talks faltered and then began again early in the evening.

After the talks resumed there were signals that the fierce dispute over anti-dumping rules had been settled. Details were not expected until today.

Overnight, Mr Mickey Kantor, the US trade representative, said after telephone consultation with Mr Lloyd Bentsen, the US Treasury secretary, that negotiations over the terms of including financial services in the Uruguay Round accord were deadlocked.

While speculation spread that negotiators were examining exclusion of financial services from the negotiations, later comments confirmed that the US-EU dispute over access to Europe's television and film markets was

EU issues pledge it hopes never to redeem, Page 3
Gatt's last hurrah, Page 27

CONTENTS

News	**Features**	The Business Traveller ... 12	Managed Funds ... 35-38
International News ... 2-4,6-9	Leader Page ... 21	Crossword ... 42	Money Markets ... 39
UK News ... 10-11	Letters ... 20	**Companies**	New Intl. Bonds ... 26
World Press Review ... 6	Management ... 18	UK/Int ... 26	Recent Issues ... 38
Lex ... 22	Observer ... 21	Company news this week ... 23	Share Information ... 40-41
Weather ... 22	Arts ... 19	**Markets**	World Stock Markets ... 34
Week Ahead ... 17	Arts Guide ... 19	Markets this week ... 27-30	**Surveys**
FT Guide to the Week ... 44	Monday People Page ... 18	FT World Actuaries ... 39	Oil and Gas ... 31-33
People ... 18	Samuel Brittan ... 20	Foreign Exchanges ... 39	Telford and Shropshire 13-16

NEWS: EU SUMMIT

Summiteers at odds over Ecofin council's role

EU Rottweiler both petted and panned

By Andrew Hill in Brussels

If there is one question unresolved following the Brussels summit, it is the strange case of the European finance ministers' split personality.

As a result, finance ministers return to Brussels today to discuss the technicalities of carrying forward the ambitious growth plans agreed by their political masters on Saturday, not quite sure whether they are the angels or the devils of the new European Union. The answer probably depends on your point of view.

At one extreme, there is Mr Jacques Delors, the European Commission president. In an animated contribution to Saturday's post-summit press conference, he condemned the finance ministers as both arrogant and ignorant on the subject of funding for new cross-border infrastructure projects.

"Ignorance doesn't prevent you from getting on as a politician, but sometimes if you know what you're talking about it is quite useful," he told journalists.

At the other end of the scale is Mr John Major, the British prime minister, and an enthusiast for a powerful Ecofin council. On Friday, he railed against the Belgian presidency's decision to exclude the finance ministers from the leaders' discussion of EU growth plans, claiming it was like preventing the "resident physician" from helping to analyse the patient's fever.

On Saturday, Mr Major went further. Many heads of government, he said, had reacted to the approach of the finance ministers by "holding up a clove of garlic and shouting 'unclean'" to keep them away from the building. Mr Major probably had in mind the attitude of President François Mitterrand, who told fellow leaders on Friday that sending the detail of Mr Delors' growth plans back to finance ministers would be the same as burying them.

In fact, the Ecofin council has already built up something of a reputation as the Rottweiler of the Union's many ministerial groups. To governments which want to defend themselves against unpalatable extra expenditure or fiscal measures it is a useful guard-dog, but to other governments, the Commission, and even ministers in other councils, it can be a dangerous nuisance with a tendency to savage their pet ideas.

In June, for example, the Ecofin council effectively shelved the idea of a European energy tax, in spite of earlier agreement between energy and environment ministers on the principle. During the Belgian presidency, the ministers have found themselves at loggerheads with the Commission over its white paper on growth, competitiveness and employment, and proposals for legally binding macro-economic guidelines. Finance ministers have also been condemned by Mr Delors for their sluggishness in enacting EU leaders' promises on a European growth initiative at the Edinburgh and Copenhagen summits.

> Some see it as a useful guard dog, others regard it as a dangerous threat to their pet ideas

The bone of contention at the Brussels summit was Mr Delors' suggestion that the EU should find some Ecu8bn (£6.1bn) of extra financing each year to back big infrastructure projects in energy, transport and telecommunications, possibly by issuing "Union bonds".

After the meeting, Mr Major and Mr Kenneth Clarke, his chancellor of the exchequer, said this idea had been thrown out by leaders. But, Mr Jean-Luc Dehaene, the Belgian prime minister who chaired the meeting, said "all the options were open, including the possibility of Union bonds".

For Mr Dehaene and Mr Delors it was more important that leaders had backed the principle of an action plan, including infrastructure investment, and measures to improve employment opportunities.

However, when pressed on the funding question, Mr Delors was crushing about some finance ministers' claim that the European Union or the old European Community had rarely, if ever, borrowed money on such a scale. "The finance ministers were very arrogant about this, but if I'd asked how much the Community had borrowed this year, they would have got nought out of 20," he said.

In 1993, he pointed out, the Union had borrowed Ecu6bn and been named "borrower of the year"; in 1979, the member states won a facility to borrow Ecu7bn which was lent on to companies; in 1975, Ecu6bn was borrowed to cope with the oil crisis.

Nonetheless, it is finance ministers who will bear the brunt of the follow-up work on trans-European networks, the growth initiative and further financing.

According to the summit communiqué, finance ministers are expected to finalise the text on macro-economic guidelines today and report back annually on its implementation.

They must also adopt a system of interest-rate subsidies for small and medium-sized companies before the end of the year; assist the Commission in implementing infrastructure programmes "efficiently, consistently and as soon as possible"; and study, together with the European Investment Bank and the Commission, how to mobilise that additional Ecu8bn a year for investors in networks. Whether or not the ministers do their homework, it seems that the Ecofin council is indispensable.

Chancellor Helmut Kohl (far right) makes a point to the press, while Mr Edouard Balladur (left) has a quite word with President Fançois Mitterrand — Reuter

More retreat than defeat on Euro-laws

By David Gardner in Brussels

Legislation on drinking and bathing water quality is to be recast into more simplified "framework" directives, with standards that EU member states will be able to implement as they see fit, leaders decided at the weekend.

This body of EU law was among a range of regulations the European Commission has reviewed in the light of the Union's subsidiarity doctrine, which in theory licenses action at European level only when national, regional or local measures would prove inadequate.

The Commission agreed to repeal 16 of 22 laws on an Anglo-French "hit-list," itself a much scaled-down version of the 71 items the UK had originally wanted discarded. However, the Commission review document approved by the summit on Saturday was not a surrender. The political climate which has developed as a result of the nearly 300, often intrusive, Euro-laws which put the Single Market in place, and public reaction to the Maastricht treaty, has chastened Brussels and governments.

Most of the legislation in the review is for recasting and simplification rather than outright scrapping. It includes a vast corpus of customs legislation, rules on takeover bids and indirect taxation, on the classification of pharmaceutical products and foodstuffs, on mutual recognition of professional qualifications, as well as the water directives dating from the late 1970s.

The document warns on the water directives that "application of the subsidiarity principle must not be allowed to lower these standards". And it specifically excludes from the review the urban waste water directive, which Mr Kenneth Clarke, UK chancellor, attacked last month on cost grounds, and officials in London had expected to be axed.

Also excluded were individual social and employment Euro-laws on the grounds that the recent Commission green paper on social policy has started "a broad debate on the future options of the Union in this field". The so-called "acquired rights" directive, protecting workers' rights when their company passes into new hands, is to be amended next year "to simplify its application and enhance its effectiveness".

The change of heart is most unlikely to lead to a general roll-back of EU legislation. An underestimated aspect of the post-Maastricht climate is the more uninhibited way in which member states prosecute their national interests, and partly as a result, mistrust each other to implement agreements and laws reached jointly. This, as Brussels well appreciates, often leaves EU institutions holding the ring.

Clarke's capers cut little ice

Philip Stephens on the UK chancellor's startling summit debut

Mr Kenneth Clarke prides himself on being one of the British cabinet's good Europeans. He owns up to believing in a single European currency. He speaks of the post-Maastricht European Union without biting his lip. Mr John Major prefers still to refer to the European Community.

But the chancellor of the exchequer's performance in Brussels over the past week has left more than a few of his European counterparts perplexed and not a little irritated. Mr Clarke himself appears characteristically unperturbed.

Last week started with him denouncing Mr Jacques Delors' white paper on growth, competitiveness and unemployment even before he had seen the final version. By the end of the summit the new boy on the Brussels block was boasting that the finance ministers had successfully "filleted" the document before it was incorporated in the conclusions of their leaders. Those conclusions would not require the British government to "change any item of its policy".

In between Mr Clarke had denounced Mr Delors for trying to slip the document past the finance ministers.

Overall, it was not a performance to endear him either to Mr Delors or to colleagues from other European capitals. "Why does he behave like this?" asked one bemused Commission official.

It is partly a question of style. Good Europeans are supposed to behave like the urbane Mr Dougals Hurd, the foreign secretary, fighting their national corner with softly spoken charm and sophistication. Mr Clarke, who hails from the street-corner school of politics so admired in the British House of Commons, has not learnt to speak the language of diplomacy. An instinctively rumbustious politician, he perhaps never will.

So plans for the Community to raise an extra Ecu40bn (£30.5bn) for infrastructure projects through Union Bonds were not "misguided" or even "mistaken". They were nonsense, nothing more than an attempt to catch an easy headline.

Nor was he modest in his claims for British achievements at the summit. Europe's decision to back supply-side policies aimed at lowering employment costs, boosting competitiveness and deregulating markets had demonstrated the UK was firmly in the European mainstream. Understandably perhaps, he was more reticent about the fact that the central elements of Mr Delors' white paper had been endorsed by other governments.

British officials are convinced that his European colleagues will get used to Mr Clarke's rougher edges – and will discern through the occasional bluster a genuine commitment to Europe. The chancellor's own assessment at the end of the week was typically uncompromising: "My credentials are impeccably European."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International).
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

هكذا من الأصل

Serbians warned of tighter sanctions

By David Gardner in Brussels

Sanctions against Serbia will be tightened unless it cedes some conquered territory to Bosnia, European Union leaders warned at their summit.

But they invited the Serb, Bosnian and Croat leaders to meet their foreign ministers in Brussels on December 22, to take up what the summit conclusions described as "now a real possibility of achieving peace" in Bosnia.

The special meeting is also aimed at averting what the summit called the "humanitarian disaster.... threatening Bosnia-Hercegovina this winter", because of the warring parties' failure to comply with undertakings their political and military leaders gave to the Twelve in Geneva on November 29, to allow unimpeded passage to aid convoys.

The Union, which on November 22 threatened to use military force to get the convoys through, warned in the conclusions that the factions "must adhere strictly" to what was agreed in Geneva.

Next week's meeting was convened under German pressure, in spite of nervousness by the current Belgian presidency of the EU that new peace talks could fail. Even Mr Klaus Kinkel, Germany's foreign minister, put chances of success at "still 50-50" but Chancellor Helmut Kohl said: "I can only hope that, a few days before Christmas, we will see some more reason and humanity" in Bosnia.

The Twelve appeared to agree with Lord Owen, the EU's negotiator on Bosnia, that a breakthrough may be possible if real pressure is applied to the warring parties. There was also concern among some delegations that Greece, which takes over the rotating EU presidency from Belgium next month, might be seen as less than impartial because of its traditional sympathies towards Serbia.

But Mr Theodoros Pangalos, the Greek alternate foreign minister who will chair the Council of Ministers from January, told the FT on the eve of the summit that he thought the Serbs would agree to the land-for-peace formula the EU offered in Geneva. "Nobody should be tempted into waiting for a spring offensive" in an effort to secure more land, he warned.

The summit conclusions underlined that "the Serbs must be aware of the responsibility they take upon themselves should they continue adopting an inflexible attitude. They must realise that only real territorial concessions by them in Bosnia-Hercegovina and acceptance of the modus vivendi in Croatia will induce the European Union to work, as it promised to do in Geneva, for the progressive and conditional suspension of sanctions in line with implementation."

Earlier attempts, led by Germany, to get sanctions toughened, were softened into an EU commitment to "promote a more rigorous application of sanctions" against Serbia until a peace settlement requiring it to cede 3-4 per cent of the territory it holds in Bosnia.

At the summit, Lord Owen was warned by EU external relations commissioner Mr Hans van den Broek against giving Serbia's President Slobodan Milosevic the impression that he could secure more territory if he ended the war.

EU issues a pledge it hopes never to redeem

David Gardner on the potentially heavy price for a Gatt accord

The European Union issued a promissory note to French farmers at the *summit to get* France to sign up to the Uruguay Round world trade deal now within reach. But it is far from certain that the EU will have the resources to redeem *this pledge if* the note is ever presented for payment.

At the same time, the 12 heads of government issued negotiating guidelines on textiles, cinema and broadcasting, and future multilateral trade rules and weapons, which could complicate efforts to conclude the Gatt talks in Geneva.

EU foreign ministers start what could turn into a week-long meeting today to try to put flesh on the bones of the summit's Gatt guidelines, which Sir Leon Brittan, the chief EU trade negotiator, will also have to factor in to his tactics in Geneva.

The French hard line encouraged countries like Spain, Portugal, Greece, Ireland and Belgium to come forward with their own last-minute lists of demands that had to be satisfied either within the Gatt negotiations, or to offset damage to national interests if a deal is reached.

The summit conclusions described textiles as "of vital importance to one member state", in implicit reference to Portuguese threats to veto Gatt unless the US offers more market access for textiles, or the EU helps Portugal restructure its textiles sector.

The conclusions also require an agreement which "guarantees special and separate treatment of audiovisual matters both now and in the future". France, with strong backing from countries such as Spain and Belgium, wants cinema and broadcasting kept out of Gatt altogether to guard against further cultural "invasion" from the US.

Greek objections to US protectionism in ocean shipping probably mean that maritime transport will now be taken out of the Geneva negotiations, Brussels officials say.

The French and Spanish demand for tougher trade defence mechanisms to put up against US Section 301 legislation will be looked at by the foreign ministers on the basis of a plausible compromise drafted at the summit.

On agriculture, France demanded a guarantee that German farmers guarantees farmers would not have to "set aside," or take out of production, any more land if the output forecasts of the reformed common agricultural policy push the exportable agricultural surplus above Gatt limits on subsidised food exports.

In practice, that would mean cutting prices to world market levels so the EU could export without subsidy. Farmers would then get direct compensation for the cuts which would cost the EU budget Ecu2bn (£1.52bn) for every Ecu10 by which the world price target had been missed.

A joint Franco-German text spelled all but the cost of this out, and in addition, offered German farmers guarantees their incomes would not be affected by any further revaluation of the D-Mark, as well as letting east German farmers off part of the penalty for exceeding by 10 per cent the area they are allowed to plant.

In the event, France got the more ambiguous commitment that if the CAP forecasts and Gatt limits collide, this would "not increase the restraints of the reformed CAP". The EU "would, if necessary, take the requisite steps while respecting the decisions of the Edinburgh European Council" last December, which put a ceiling on EU farm and budgetary expenditure. The German demands, which could prove even more costly than France's, have been left for further wrangling.

Mr Edouard Balladur, French prime minister, who has to sell a Gatt deal to parliament this week, acknowledged that the set-aside guarantee was implicit, but insisted that "it is agreed that what needs to be done will be done".

Mr John Major, UK prime minister, chose to emphasise "there will be no change to the own resources [EU budget] limit and that has been agreed". Do these commitments add up?

A Gatt agreement will not start until 1995, and whether CAP output forecasts are accurate will not be known until 1996. The revised Blair House EU-US accord on farm trade pushes part of the Gatt cuts towards the end of its six-year timetable. So nothing should have to be done until around 1997, and only then if production projections are wrong. But by then, the EU budget, which moves up in line with combined gross domestic product, should have more resources, assuming growth resumes.

But if Germany eventually gets the "green" D-mark formula it wants – the costly "switchover" mechanism which raises farm prices in all countries in line with the strongest revaluing currencies – such calculations could be worthless, and the promissory note will fall due.

Deadlock broken over R&D spending

By Andrew Hill in Brussels

EU leaders have managed to break the deadlock over financing the Union's research and development budget for the next five years.

They agreed that the total budget for the EU's fourth "framework programme" of research and development, which runs from 1994 to 1998, should be "not less than Ecu12bn (£9.14bn), to which might be added a reserve of Ecu1bn (£760m), to be released at a later date".

That appears to represent a small victory for the European Commission, which had proposed an R&D budget of Ecu13.1bn for the five-year programme. That plan was supported in meetings of research ministers by nine member states. But at last Monday's research council, the Union's biggest paymasters, France, Germany and Britain, *held out for a lower figure* – said to be around Ecu11bn – and the issue had to be passed to the summit.

The leaders acknowledged that the research programme would be an important element in support of the general growth plans agreed on Saturday. In their communiqué they said "the implementation of an ambitious, well-targeted research programme constitutes a significant contribution to efforts towards recovery, particularly in areas such as information technology".

If the Ecu12bn budget is approved by the European parliament, some Ecu10.5bn will be spent on the R&D projects themselves, and the rest on training, international co-operation and dissemination of results. Research ministers have already agreed that 28.2 per cent of the Ecu10.5bn should go to fund information technology and communications research, 18.15 per cent towards non-nuclear energy projects, 16 per cent to industrial technologies, 13.1 per cent to life sciences, such as biotechnology, and 9 per cent to environmental projects.

Even at a reduced figure of Ecu12bn, the fourth framework programme is, in absolute terms, the largest ever undertaken by the EU. But Commission officials point out *that it* cannot be compared directly with the 1990-94 programme (worth Ecu6.6bn) because of inflation and changes in its composition.

Kohl plans to take Europol under his wing

By Andrew Hill in Brussels

Germany will make a special effort during its presidency of the Union next year to strengthen the powers of Europol, the fledgling pan-European police agency, to tackle organised crime. At a news conference after the summit, Chancellor Helmut Kohl described organised crime as a "cancer" spreading through the EU. "The need for intense co-operation between governments is urgent," he said.

During the summit, EU leaders approved a plan of action, drawn up by justice and home affairs ministers last month, to reinforce the fight against drug trafficking, money laundering and organised crime.

But although other leaders and the Belgian presidency only touched on the issue in their briefings, Mr Kohl made a special effort to underline the need for greater co-operation. He is known to have been disappointed that he did not persuade his fellow leaders to insert more robust commitments on international crime-fighting into the Maastricht treaty two years ago.

Europol, based in The Hague, is currently charged with co-ordinating the European fight against drugs trafficking, but EU leaders agreed that a special Union convention should be prepared by next October aimed at broadening its responsibilities.

Mr Kohl said a pan-European approach was the best way to tackle such cross-border problems, as regional and local police were unqualified to deal with international crime.

As if to underline the difficulty of getting 12 member states to agree on sensitive justice and interior matters, EU leaders were forced to note in their communiqué Spain's objection on principle to implementation of common EU action on asylum. Madrid is protesting about Belgium's sympathetic treatment of two Spaniards suspected of links with Eta, the Basque terrorist group. It wants to extradite the pair but last week a Belgian court freed them pending investigation of their plea for political asylum.

NEWS: INTERNATIONAL

US grounds aircraft subsidy talks

By Frances Williams in Geneva

Negotiations on a Gatt code disciplining state subsidies for aircraft ground to a standstill at the weekend after US industry representatives said the proposed agreement was unacceptable.

"Right now I don't see the aircraft agreement as a basis for going forward," a senior US official said yesterday. The impasse followed strong objections by American engine and component manufacturers to being included in the revised code, which would restrain subsidies of all kinds to the aircraft industry.

There were signs later in the day that another attempt might be made to resuscitate the talks. Officials were reluctant to term the issue a "round-breaker", but failure would be a serious setback to efforts to secure fairer competition in the aircraft sector.

Trade negotiators from other countries involved in the aircraft talks said the US industry was making a strategic mistake in rejecting a deal that would rein back state supports for the aircraft industry around the world, including emerging competitors in the Far East. The industry is the US's biggest export earner.

The US and EU agreed last year to press for "multilateralisation" of their 1992 bilateral accord capping state subsidies to the European Airbus and placing a limit on US indirect supports via military and space research contracts for aircraft manufacturers.

However, the bilateral pact applies only to large civil aircraft, whereas Gatt's existing civil aircraft code applies to all aircraft and components, and covers 22 signatories with a wide variety of subsidy systems.

The US industry is objecting to inclusion in the revised code of provisions that would impose tighter disciplines on research-based subsidies than those included in the separate, and more general, subsidies agreement being negotiated in the Uruguay Round.

Negotiators on financial, shipping and audio-visual sectors at loggerheads

Haggling clouds Gatt hopes on services

By David Dodwell, World Trade Editor, in Geneva

Mickey Kantor and Sir Leon Brittan in Geneva: audio-visual services remain biggest obstacle AP

Hopes for a wide-ranging Uruguay Round agreement to boost international trade in services were clouded yesterday as US and European Union negotiators continued to haggle inconclusively over reform of key services sectors.

While Mr Peter Sutherland, Gatt's director general, railed at the US and the EU for failing to settle their differences, negotiators on financial, shipping and audio-visual services remained at loggerheads in spite of intensive meetings throughout the weekend.

Trade officials questioned what would be left of any agreement to liberalise trade in services if commitments in banking, securities, shipping and the entertainment industry were minimal.

In literal terms, it would include trade in insurance services, tourism, construction, professional services, consultancies, and limited easing on the movement of workers, but these are small by comparison with the three sectors blighted by dispute.

One senior official called for negotiators to rein in their ambitions in order to make compromise possible. He reminded negotiators that present disputes ignored how much more ambitious the agreement to liberalise services had become since the decision in Punta del Este in Uruguay in 1986 to bring trade in services into the Gatt.

"At Punta del Este we were talking only of a framework of rules for services. It was only in 1990 that countries raised their sights to the idea of getting commitments to liberalise. It is true that most of the offers today offer little more than standstills, but at least that is a start. They provide a foundation for us to work from in future rounds."

Mr Larry Summers, US deputy treasury secretary, yesterday challenged this view: "We have not achieved what the US financial services industry was hoping to achieve in 1986," he said shortly after arriving in Geneva.

He insisted the US had "very substantially modified its position" since summer, when negotiators were warning they would withdraw their financial services offer completely if other countries did not come forward with better market-opening offers.

"We think that everyone's legitimate interests are protected by the two-tier most favoured nation option we have proposed. Those who have made serious commitments to national treatment will get a full set of commitments from the US."

He complained that many countries were still refusing to guarantee minimum access to foreign banks and brokers no worse than that currently available.

Negotiators are understood to be considering whether some kind of carve-out could be managed for financial services which would allow negotiations to continue beyond the December 15 deadline for completion of the Uruguay Round agreement. Officials question how a services agreement could be completed in such circumstances, or even whether the entire Uruguay Round package would not be jeopardised if commitments on financial services remained unclear.

On maritime services, negotiators gloomily predicted that ocean shipping now seemed unlikely to remain in the Uruguay deal, after EU officials discovered on Thursday that a US offer was much more limited than originally expected.

The most critical "round-breaking" issue remained the US-EU row over access to Europe's television and film industries. Mr Mickey Kantor, US trade representative, said yesterday he felt all other differences could be settled if compromise could be found on the audio-visual issue.

Mr Jack Valenti, president of the Motion Picture Association of America, insisted that "we are really trying to be flexible".

Portugal Socialists sense poll victory

By Peter Wise in Lisbon

The Portuguese voted yesterday in nationwide municipal elections in which the opposition Socialists were expected to inflict a significant defeat over the ruling Social Democrats of Prime Minister Aníbal Cavaco Silva.

Mr Cavaco Silva accused opposition forces of trying to push the vote beyond local issues into a national verdict on government performance in the hope of persuading President Mario Soares, himself a Socialist, to dissolve parliament and call an early general election before the next scheduled ballot in October 1995.

Mr Soares would consider calling an early election if the Social Democrats suffered successive defeats in yesterday's poll and a ballot for the European parliament in June, according to those close to the president. He would also take into account the economic and social climate.

The Socialist party distanced itself from the threatening signs coming from Mr Soares. "We will not call for a dissolution of parliament even if we win every council in the country," guaranteed Mr Antonio Guterres, the Socialist leader. Instead, the Socialists accused the government of deliberately dramatising the issue.

"Aware that they face an overriding defeat, the Social Democrats are trying to convince the country that the municipal elections could affect the stability of the government in the hope that this will play in their favour," said Mr Guterres.

Opinion polls were unanimous in forecasting that the Socialists would extend the majority of the country's 305 municipal councils that they already held after a backlash vote against the Social Democrat government in the previous elections in 1989.

Social Democrat campaign managers say the party should improve its position in the Alentejo plains of southern Portugal, a traditional Communist stronghold, and in the south coast Algarve region, until now solidly Socialist.

But the Socialist and Communist alliance ruling Lisbon is expected to renew its mandate and Socialist domination of Portugal's second city Oporto is unlikely to be dented.

Social Democrat officials also admit privately that the Socialists and Communists are likely to win most other large cities.

Praise for Hungary's farmers

By Nicholas Denton in Budapest

Hungary's farmers are among the best placed to benefit from a liberalisation in world trade following a successful conclusion of the Gatt Round, according to a report by the Organisation for Economic Co-operation and Development.

The study finds that the level of agricultural subsidy in Hungary is lower than in any of the 24 developed states bar New Zealand.

Hungary has a "producer subsidy equivalent" of just 8 per cent compared with an OECD average of 44 per cent, according to 1992 figures.

Budapest's Agriculture Ministry said that the low level of support put Hungarian farming in a strong position in the event of a Gatt breakthrough.

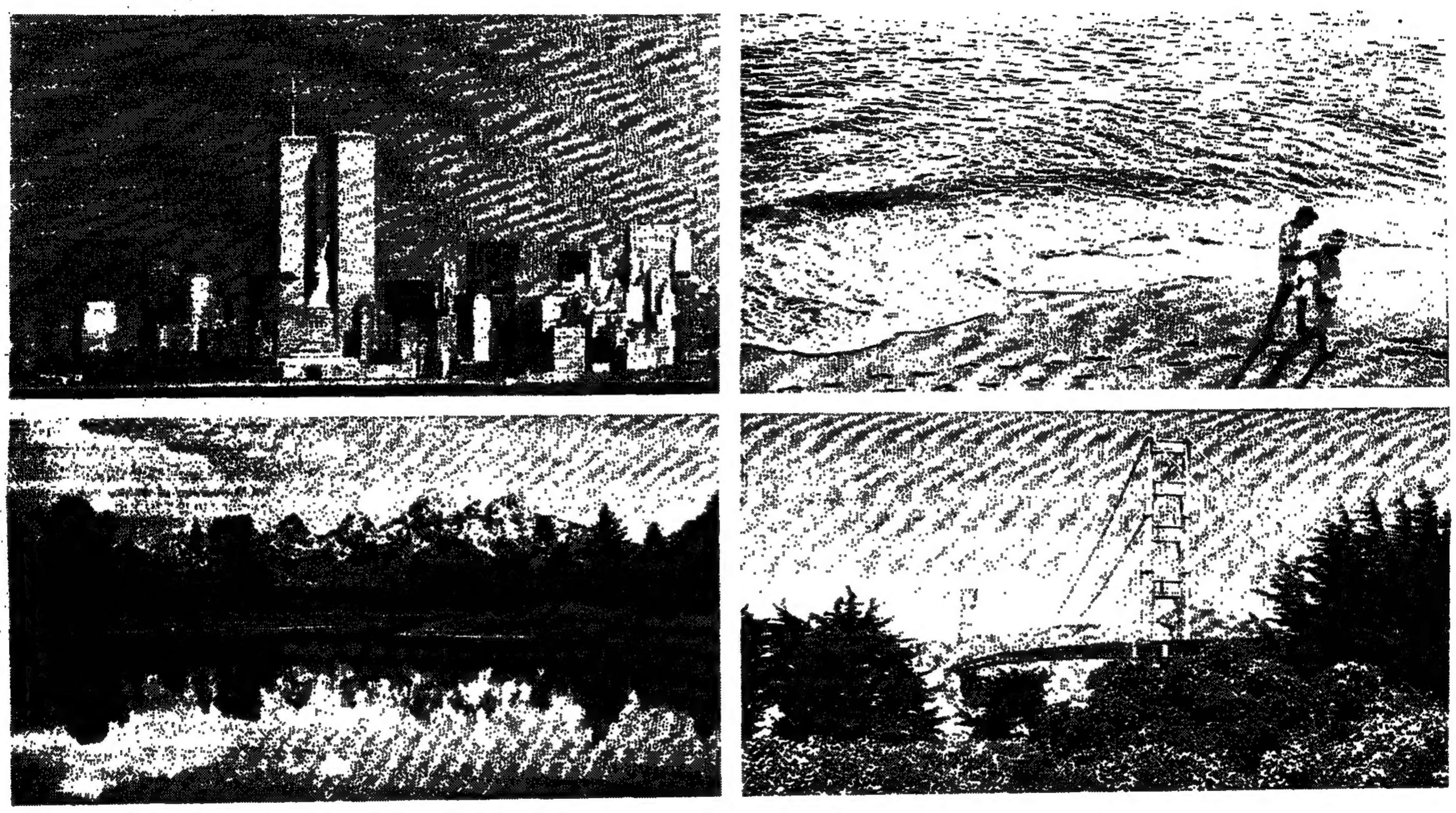
While most countries would have to cut subsidies, Hungary would be allowed to maintain the current level of support and competitiveness would therefore improve, the ministry said.

Antall obituary, Page 6

هكذا من الاصل

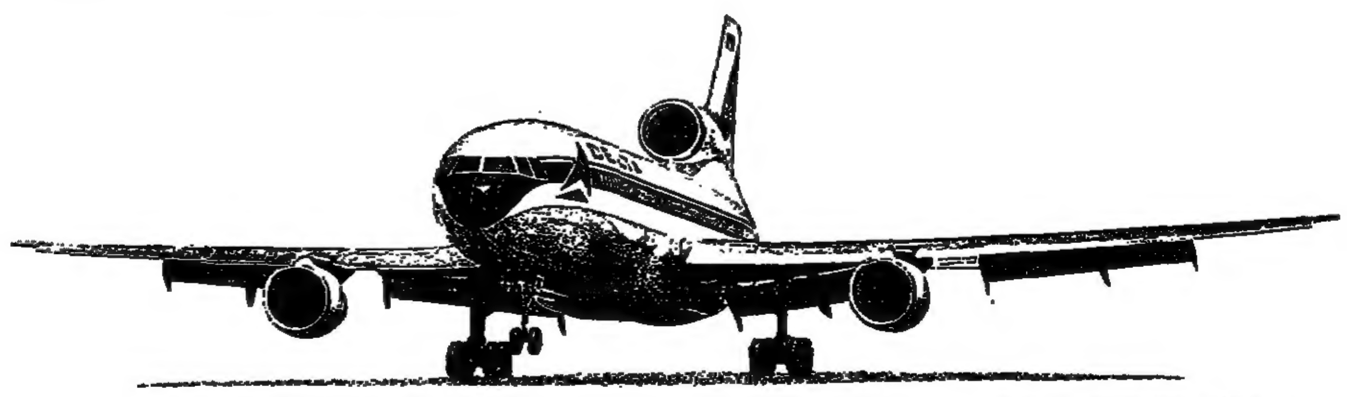
هكذا من الاصل

One Ticket. One Airline. All Of America.



If you're traveling to the United States, consider this: Delta Air Lines can take you nonstop to more cities in the U.S., from more cities in Europe, than any other airline in the world. And once you're in the U.S., Delta can take you on to more than 250 cities across America. Conveniently. Comfortably.

For reservations or information, contact your Travel Agent or Delta. No other airline gives you so much of America from so much of Europe.



DELTA AIR LINES

New president's victory reflects popularity of outgoing Aylwin government

Landslide for Frei in Chilean election

By Stephen Fidler and David Pilling in Santiago

Mr Eduardo Frei of the governing Concertación coalition swept to victory in Chile's weekend presidential elections, winning the largest popular backing of any Chilean head of state in 60 years.

Mr Frei, whose father was president from 1964 to 1969, won 58 per cent of the vote, against around 24 per cent for his main rival, Mr Arturo Alessandri of the centre-right. By securing more than half the vote, he avoided a run-off in February, and will take office on March 11.

His victory was built on the popularity of the four-year government of President Patricio Aylwin, which is credited with engineering a largely successful transition to democracy from the 17-year dictatorship of General Augusto Pinochet. Mr Aylwin is set to leave office as Chile's most popular president ever, according to Mrs Marta Lagos, director of polling organisation Cerc.

For the first time in more than half a century, the election did not result in a shift of power to the opposition. Nevertheless, it underlined Chile's long-standing voting patterns, which divide the electorate into roughly equal blocks of left, centre and right.

Parliamentary elections, also held on Saturday, left the shape of Congress little altered. This will make it difficult to achieve changes sought by Mr Frei to the 1980 constitution, which require a two-thirds majority in both houses. The constitution, drawn up under the military, packs the Senate with appointees of the Pinochet regime and does not allow the president to appoint or remove the head of the armed forces – Gen Pinochet.

Frei: father's footsteps

Mr Frei is not expected to veer much from the economic policies that have helped Chile become Latin America's fastest growing economy. Growth this year is expected to be 6.2 per cent after 10.3 per cent in 1992.

During the Aylwin administration, some 10 per cent of the population has risen out of poverty. Unemployment has fallen nationally to 4.5 per cent and real wages have risen by 3.5 per cent annually, largely in line with productivity growth. Meanwhile, Chile has the highest investment rate in Latin America, estimated at 27.5 per cent of gross domestic product this year.

In an interview just before the election, Mr Frei said: "It's clear the four-year transition is over and Chile has recovered its democratic tradition."

The main challenges that had faced Mr Aylwin concerned human rights, the consolidation of democracy and the reconciliation of development with social justice, he said. "These tasks have been achieved and we therefore have other priorities, such as the fight against poverty and improving education."

Mr Ricardo Lagos, a socialist leader within the Concertación and likely cabinet minister, said social issues would become the highest priority "not because Aylwin did badly, but because he's done well".

Mr Alejandro Foxley, the outgoing finance minister, agreed that the new administration would have to reorder its priorities. "We have institutional problems, that could become serious, in the way that health and education services are provided.

"We are not happy with the way the system is working either on the public or the private side," he said. The private health system needed better regulation to stop insurers from withdrawing coverage from high-risk patients. The public system was overcentralised, prone to industrial conflict and still suffered from years of inadequate funding by the military regime.

Mr Frei foresees radical reforms in these areas, particularly in education. "If we are really serious about leaving the ranks of underdeveloped nations, we will have to introduce profound changes in the educational system and in work training," he said.

However, Mr Juan Villarzú, Mr Frei's main economic adviser and his expected finance minister, made clear that the Frei administration would not allow social concerns to loosen the grip of fiscal restraint. On the contrary, if the international downturn continued to weaken the prices of Chile's principal primary exports, the 1994 budget might have to be cut, he said.

But in the medium term, given international recovery, he saw "few restraints" to growth rates of around 7 per cent. Inflation is expected to fall to 12 per cent this year.

This success has been accompanied, according to recent opinion polls, by a scaling-down of popular expectations about what democratic government can achieve. If this is good news for Mr Frei, there are some questions about the six-year term he is expected to serve. "One good thing about short presidential periods is when people start to become dissatisfied you have a change of government," said Mr Foxley. "A six-year term may be too long for that."

Frei supporters celebrate outside his headquarters after his victory yesterday Associated Press

NEWS IN BRIEF

Andorrans vote for first time

Andorrans voted yesterday in the tiny Pyrenean principality's first constitutional election, ending semi-feudal traditions that date back seven centuries, Reuter reports from Andorra La Valla.

Five political groups were competing for 28 seats in the Consell General de les Valls, the Andorran parliament. About 9,700 Andorrans, representing only 15 per cent of the population, are eligible to vote. Most of the residents in the land-locked mountain states are unfranchised foreigners.

Population growth warning

Half the world's population will be living in cities by the end of this decade, leading to critical shortages of clean water, housing and health care, according to Population Concern, the UK-based family planning charity, writes Bronwen Maddox.

The world's population is growing by 96m people a year, with more than 80 per cent of the growth in towns, it says. The UN has forecast that the world's population could double to more than 10bn people by the middle of the next century.

Boost for fusion reactor

The successful generation of fusion power at the Princeton Plasma Physics Laboratory in the US is a boost for plans to spend an estimated £10bn on an international nuclear fusion reactor in the late 1990s, writes Clive Cookson, Science Editor.

The proposed International Thermonuclear Experimental Reactor would show whether a controlled version of the process which fires the sun could deliver safe energy on earth. If the optimists are right, fusion will become the cheapest and cleanest source of heat and power in the middle of the next century.

Global warming fund failure

Negotiators failed last week to agree to create a permanent funding mechanism for the conventions on global warming and biodiversity signed last year in Rio de Janeiro, writes Lisa Bransten in Washington.

Disputes about how the organisation would approve master plans and specific projects are the key remaining issues blocking restructuring of the pilot Global Environment Facility, set to disband in the middle of next year, according to the World Bank.

50 missing in building collapse

Hopes are fading of finding any more survivors in the rubble of an apartment block which collapsed in Kuala Lumpur at the weekend, writes Kieran Cooke in Kuala Lumpur. Police believe more than 50 people are still missing.

US to cut Somalia troops

Secretary of Defence Les Aspin said yesterday the US would withdraw about 2,500 of its 8,200 troops in Somalia by Christmas, Reuter reports from Washington. Between a quarter and a third of them would be out of Somalia by December 25, Mr Aspin said on NBC-TV's Meet the Press.

Malaysia, Australia kiss and make up

Kieran Cooke and **Nikki Tait** see the heat taken out of a diplomatic confrontation

Like two rather awkward dancing partners, Malaysia and Australia are doing the diplomatic waltz again. Last month Mr Paul Keating, Australia's blunt speaking prime minister, trod on Malaysia's toes by describing Dr Mahathir Mohamad, his Malaysian counterpart, as a "recalcitrant" for not attending the recent Apec summit in Seattle.

Malaysia responded by imposing restrictions on contacts with Australia and there was talk of downgrading diplomatic relations.

But after Mr Keating wrote a personal letter to Dr Mahathir and twice publicly expressed regret for his remark Malaysia has now agreed to be friends. "The government does not wish to prolong this issue and will take no further action," said a statement after a weekend meeting of the Malaysian cabinet.

Australia, clearly relieved the row has ended, says it wants further to develop relations. But damage has been done to business confidence in what has always been a fragile relationship.

Australia is turning more towards the fast-growing economies of southeast Asia, and Malaysia has become one of Australia's top dozen trading partners – in 1992-3 Australia exported goods worth A$1.3bn (£590m) to Malaysia and imported some A$970m worth.

But during the recent debacle Australian companies had begun to report the cancellation of export orders: last week, for example, Voxson of Brisbane, which makes and exports mobile phones, saw one of its Malaysian dealers halt an impending order for cellular equipment. Meanwhile, the Malaysian authorities moved quickly to ban Australian commercials and TV programmes, including a film on the well-known Australian, Crocodile Dundee.

Business people on both sides now wonder how long it will take to normalise ties again. A vocal contingent in Australia has consistently warned about putting too many eggs in the Asian basket, citing the political instabilities they feel prevail in the region.

One test case could be a multi-billion-dollar bid by Transfield, the large privately-owned Sydney engineering group, to supply 27 patrol vessels to the Malaysian navy.

As peace overtures gathered pace last week, officials seemed to feel the company was at least in the running for the order. Hopes rose further after Dr Mahathir visited the Australian stand at a local defence exhibition.

But for Malaysia, there are questions about how the row might affect Australian investment in the country. Malaysian statistics show Australia's investments there trebled last year to more than $830m (£557m), making it one of the leading investors in the country.

And at a time when Malaysia is seeing a sharp drop in the growth of foreign investment – with foreign capital going to other emerging economies such as China and Vietnam – a fall-off in Australian investment could hurt.

"The Australians have been clumsy," said a diplomat in Kuala Lumpur. "But Malaysia is gaining a reputation as a difficult country to deal with – at least on the political level. Damage has been done on both sides."

Dr Mahathir, though, seems to relish the role of spokesman of the smaller nations, attacking the west, particularly the US, on a range of issues including human rights and the environment.

"Sometimes you have to be a bit notorious to be a bit famous," he said recently. "In order to be known, you have to be nasty. I'm sometimes nasty toward governments, not business people."

End near for US pit strike

By Laurie Morse in Chicago

Members of the United Mine Workers of America look set to ratify an agreement this week to end the seven-month US coal strike. The nation's biggest coal companies and union leadership agreed on a new five-year contract in Washington last week.

Both sides have won concessions, although the prolonged strike was costly for all parties, and particularly for the mid-western coal industry, which is in a long decline, industry analysts say.

The union appears to have achieved some guarantees that union miners will be hired when coal companies or their subsidiaries open new mines, said Mr Rafael Villagran, a Lehman Brothers analyst.

He said the companies gained more flexible work rules, including the right to schedule seven-day weeks and in some cases 10-hour days. "The settlement will certainly be taken positively by investors," said Mr Villagran, "and it should make the UMWA a little stronger. Their representation in the industry has been dropping, and they needed to stop that. This could help."

Less than half of the coal in the US is mined by union workers. UMWA membership has declined from a peak of 400,000 in the 1950s to about 85,000 today. The union risked the strike to gain job security for its members and, to some extent, a future for itself. Its strategy, a selective strike which targeted companies with the toughest bargaining positions, split three coal producers from the employers' bargaining group, the Bituminous Coal Operators Association.

The strike settlement, however, does not change a fundamental shift away from the high-sulphur coal mined in the Illinois basin, where the union is most active. Mr John Mead, director of the Coal Research Centre at Southern Illinois University, said more midwestern mining jobs were bound to be lost as utilities, under pressure from environmental constraints, switched contracts to low-cost, low-sulphur non-union coal mined in Wyoming and other areas of the west.

"Will the terms of the agreement protect miners in the face of these changes?" said Mr Mead. "We don't know."

The strike had a severe impact on 1993 profits of Peabody Coal, a subsidiary of Hanson. It also affected Consol, co-owned by DuPont and Rheinbraun, Ashland Coal and privately-held Zeigler Coal.

Hungary's PM Jozsef Antall dies

Mr Jozsef Antall, Hungary's conservative prime minister and eastern Europe's longest-serving leader, died yesterday afternoon at the age of 61, after heart trouble compounded his cancer condition, Nicholas Denton writes from Budapest.

His death, after 3½ years in office, follows a long battle against non-Hodgkin's lymphoma, a form of cancer with which the prime minister was diagnosed in 1990, the year he and his centre-right coalition were elected.

The demise of Mr Antall, leader of the governing Hungarian Democratic Forum, threatens political turbulence, coming soon before elections pencilled in for next May.

Taking over as interim prime minister is Mr Peter Boross, the interior minister, who deputised for Mr Antall during his hospital treatment.

But the succession is by no means certain and other candidates like defence minister Lajos Für may emerge. The struggle is set to shift the centre of political gravity within the Forum to the right as contenders seek the support of party activists. A potential kingmaker is Mr Sandor Lezsak, who runs the day-to-day affairs of the Forum.

Mr Antall's death is a loss for the Forum because, though his popularity ratings were low, he was widely respected, even by his opponents, and seen as an electoral asset.

The change in leadership will raise concerns about the country's reputation as an island of stability in an unsettled region, an achievement tied to Mr Antall's personality.

INTERNATIONAL PRESS REVIEW

FRANCE

Anyone who has ever suspected that the Balladur government is making a fuss about nothing in the Gatt negotiations might have changed their mind had they witnessed the tone of last week's French regional press.

The week began with the announcement that the EC and the US had finally reached an agreement on agriculture, a breakthrough welcomed by the national newspapers. The response in the provinces was very different.

"The Gatt negotiations are totally reactionary," thundered Mr Christophe Pron, head of one of the Aube farming unions, in Tuesday's L'Est Eclair. "This isn't free trade: it's dictatorship."

L'Alsace described the mood of local farmers as "anxious" and feared that the US concessions were "totally inadequate".

The following day, La Dépêche du Midi assembled a panel of agricultural leaders to air their views. The bluntest was Mr Raymond Lacombe, former head of FNSEA, the national farmers' union. "The Americans have one aim – to smash the common agricultural policy," he fumed. "The Europeans are making a major political mistake. The world will starve if food becomes a political weapon for the Americans."

Tempers were still heated on Thursday. Presse-Océan described the farmers as "between deception and anger". The small farmers' union condemned the French government's conduct of the negotiations as "high treason" in DNA, the Alsace paper. Ouest-France said the farmers had been "boxed into a corner".

Enough was enough for the nationals by the end of the week. "Gatted Out" shrieked the headline of Philippe Bouvard's column in Friday's France-Soir. "I've found it hard to follow the Gatt dossier," he confessed. "All I know is that the naughty Americans, not content with having foisted Disneyland on us, have entrusted the future of our exports to someone called Mickey."

GERMANY

Just how sharp is the much-vaunted long-sightedness of Germany's top managers? The question was asked last Monday in the Frankfurter Allgemeine Zeitung's comment on the severe liquidity problems at Metallgesellschaft.

En passant, it raised the same poser about Daimler-Benz, Germany's biggest industrial concern, whose AEG subsidiary was within days to announce plans for a radical structural shakeout and the sale of its flag-bearing domestic appliances business to Electrolux.

Both groups, the FAZ suggested, were peacocks that had fanned their tails too wide: in the case of MG, by attempting to change the old mining and metals company into an environmental technology group through high-risk acquisitions and investments.

Börsen-Zeitung, the traditionally po-faced stock market daily, also resorted to the peacock analogy in its analysis of the New York oil futures farrago which generated MG's crisis. It proposed that the local subsidiary had been allowed to over-stretch its capabilities.

Details of action at AEG, the care-worn electrical and electronics business, rescued from the brink in the 1980s and then tucked under the Daimler-Benz wing, had been well-leaked in advance.

But Handelsblatt, the financial daily, was in no mood to be generous. "The AEG story is a story of erosion and failings... Damage limitation is dominant. Long-term structural and behavioural concepts have yet to come," it charged.

Another article in the same paper, less judgmental but more glum, concluded: "The dream of an independent, globally-active electro-group appears to have faded. The contraction will continue."

SOUTH AFRICA

South African newspaper readers have had a rough time over the past few months: headline writers have served up a tedious diet of alternating breakthrough and breakdown as constitutional talks lurched toward their conclusion; editors and political columnists suffered rapid mood swings from triumph to gloom and back again.

The process reached its climax last week when blacks took their seats on the Transitional Executive Council, ending 350 years of white domination. Yet this story of black triumph over apartheid was relegated to page two in the Sowetan, the leading black daily. The Citizen, the popular Johannesburg daily that also has a large black readership, followed suit, concerning itself on its front page with whether the Prince of Wales would ever be king.

Ironically, the Afrikaans daily Beeld greeted the great day with a page-one burst of lyricism: "The door of the new South Africa has been opened and hope shines through in brilliant beams", it said.

The Johannesburg Saturday Star also noted the "damp squib" effect of the TEC, and set out to find out why. "People don't seem to know exactly what's going on," said Ms Joyce Dube, a journalist quoted by the paper. "Perhaps we have not made it clear," she said, indicting the role of her own profession in failing to put the minutiae of negotiations in proper context.

But "Big B", a patron of a Soweto shebeen (bar), had the last word: "Power? What power?", the Saturday Star quoted him as asking. "You must be joking. Just because you have your hands on the steering wheel does not mean you're driving to the bank."

UNITED STATES

US news organisations maintain an apparently insatiable news interest in outer space, but there comes a time when one spacewalk starts to look rather like another.

That time came last week for US newspapers, as the space shuttle mission to repair the National Aeronautics and Space Administration's defective Hubble satellite telescope rolled smoothly towards its conclusion.

Journalists' metaphors swung metronomically between eye surgery and garage repairs – even Nasa officials couldn't make up their minds which they preferred. But "flawless" won the day as the adjective for everyone.

In truth though, watching routine space shuttle launches is almost as fascinating as train spotting, and the lack of drama soon saw Hubble relegated.

The New York Times, Los Angeles Times and Washington Post all carried front-page stories with photographs and graphics on Monday. By Tuesday, only the pictures remained, with the words shifted to the inside pages.

The dirty secret, of course, is that news organisations devote reporters and camera crews to the space shuttle just in case one blows up again, as Challenger did in 1986. Since reporters must justify their expenses, they write stories, but when nothing goes on, it is hard to keep them on the front page.

By Thursday the New York Times was devoting its front-page attention to the lone gunman who on Tuesday evening had killed five people on a Long Island commuter train, and the Washington Post was warning its readers to boil their drinking water.

Contributions from Alice Rawsthorn in Paris, Christopher Parkes in Frankfurt, Patti Waldmeir in Johannesburg and George Graham in Washington

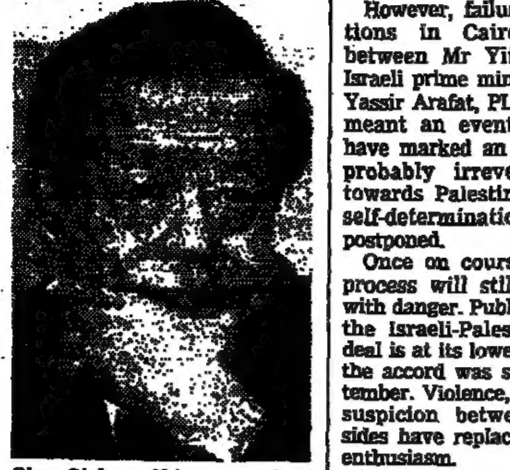
هكذا من الاصل

China warns Patten of HK turmoil

By Simon Holberton in Hong Kong

The war of words between China and Britain over Hong Kong escalated at the weekend, with a senior Chinese official suggesting for the first time that Governor Chris Patten's democracy plans for the colony could provide a pretext for an early Chinese takeover there.

Mr Qian Qichen, China's foreign minister, described Mr Patten's plans for greater democracy as a kind of "man-made turmoil". The first stage of Mr Patten's democracy legislation will be tabled in the Legislative Council (LegCo) on Wednesday – an event which China has said would end bilateral talks about Hong Kong's political development.



Qian Qichen: China cannot sit back and watch disorder

Use of the word "turmoil" is particularly significant. In 1982 Mr Deng Xiaoping, China's paramount leader, told then British prime minister Mrs Margaret Thatcher that China would take control of Hong Kong before 1997 if turmoil erupted in the colony.

Mr Patten yesterday said there was "no turmoil or chaos in Hong Kong". Chinese officials could put their "hearts and minds at rest on that particular issue", he added.

The governor was supported by Mr Ronald Arculli, deputy leader of LegCo's Liberal (conservative) party. "Hong Kong is not in turmoil now, and I can't conceive of any situation where Hong Kong would be in turmoil," he said.

Mr Qian was speaking at a meeting of Beijing's "preliminary working committee" (PWC) - a group of mainland officials and Hong Kong plutocrats charged with advising China on its takeover of Hong Kong. At the meeting the foreign minister said China hoped to control "disorder" in the colony through agreement with the British. "But if co-operation breaks down, we cannot sit back and watch disorder in Hong Kong."

It is clear, however, from the PWC's deliberations that China is planning for a breakdown in bilateral co-operation. The group has been charged with drawing up arrangements, by July next year, for fresh elections after 1997.

Israeli withdrawal from Gaza-Jericho is fraught with danger, writes **Julian Ozanne**

Mideast extremists lurking in the wings

Israel was due today to begin dismantling the military apparatus which, for more than two decades, has controlled the Gaza Strip and West Bank area of Jericho - captured during the 1967 Six Day War.

However, failure of negotiations in Cairo yesterday between Mr Yitzhak Rabin, Israeli prime minister, and Mr Yassir Arafat, PLO leader, has meant an event that would have marked an historic, and probably irreversible, step towards Palestinian national self-determination has been postponed.

Once on course again, the process will still be fraught with danger. Public support for the Israeli-Palestinian peace deal is at its lowest point since the accord was signed in September. Violence, mistrust and suspicion between the two sides have replaced the initial enthusiasm.

The Palestine Liberation Organisation and the Israeli government will have to move fast to ensure that extremists opposed to peace do not exploit the lingering vacuum. For the Palestinians that means an explicit demonstration by Israel that it is really handing over substantial power to a Palestinian authority and easing its military grip.

For the Israelis it largely means the PLO assuming the responsibility of office and using its embryonic police force to rein in attacks by Palestinians against Jews and generally maintain security, which will remain the touchstone of Israeli concern.

The tasks will not be easy but both Mr Rabin and Mr Arafat are badly in need of a boost.

The most urgent need is to iron out the last remaining points of disagreement on a protocol which lays the framework for a phased four-month Israeli troop pullout from Gaza-Jericho and the transfer of power from the Israeli military-run civil administration to Palestinian hands.

Although Israel was scheduled to begin the symbolic withdrawal today – probably by dismantling barricades, redeploying troops away from some Palestinian population areas and releasing up to 1,500 Israeli-held Palestinian prisoners – the real withdrawal could not have gone ahead before the protocol was in place.

Three substantive issues remain to be solved: the size of the Jericho area, the role and number of Israeli troops who will stay behind to safeguard Jewish settlers, and control over border crossings between Gaza and Egypt and Jericho and Jordan.

Egyptian Prime Minister Atef Sedki (left) greets PLO leader Yassir Arafat, in Cairo yesterday for a Mideast peace summit

But once the protocol is signed there are tough times ahead during the four months leading to the April 13 deadline for the Israeli military's withdrawal.

Detailed plans are in place for the transfer of power from Israeli to Palestinian hands – that part of the peace talks went relatively smoothly. However, implementation will be more difficult.

Two critical issues hang over the PLO. The first is whether the former liberation movement is ready to assume administration of the economically decimated, faction-riven Gaza Strip – home to 900,000 Palestinians. The top leadership of the PLO is deeply split, with mounting criticism about the authoritarian leadership of Mr Arafat and his preference for political appointees of his own generation, rather than professionals, to staff the key administrative bodies. Several officials have resigned recently charging Mr Arafat with an inability to respond to the challenge of governing or reforming the bureaucratic and centralised decision-making system.

Secondly, there are deep doubts about Mr Arafat's willingness or ability to move against Palestinian extremists both inside and outside the PLO bent on wrecking the peace accord and continuing the armed struggle against Israel. Will Mr Arafat, for example, dispatch his police force to confiscate weapons from Islamic guerrillas intent on launching attacks across the Gaza border into Israel?

Even if Mr Arafat wishes to do so he may be constrained by the domestic political situation and the prospect of elections next July (although to many Palestinians that date seems optimistic).

On the Israeli side the challenge of the next four months is equally formidable. Once the protocol is signed and Israeli withdrawal is in full flow Mr Rabin will have to rely on the safeguards enshrined in the peace accord and on the goodwill of the Palestinians. How long will the prime minister, already under intense domestic pressure, be able to hold out if Palestinian attacks do not subside?

And can Mr Rabin, hanging on to power with a wafer thin parliamentary majority and an almost permanent coalition crisis, risk a showdown with increasingly militant Jewish settlers who appear to be winning increasing public sympathy?

Without more concrete peace dividends like better security, an end to the Arab boycott, or peace with Jordan the government will face an uphill battle to sell its peace policy to a sceptical public.

For both Mr Rabin and Mr Arafat the real challenge ahead is managing their own constituencies. Both men will need each other's patience, goodwill and courage to make the process succeed and defeat extremists waiting in the wings.

Zimbabwe likely to win extra aid

By Tony Hawkins in Harare

Donors attending a Zimbabwe aid meeting in Paris today are expected to respond sympathetically to the government's call for extra funds in 1994 to support its economic reform programme.

Zimbabwe will ask donors at the meeting, to be chaired by the World Bank, for an extra \$226m (£151.6m) to close its 1994 funding gap. This implies some \$808m in new pledges, assuming that project aid is disbursed over five years and balance of payments assistance over 18 months.

The programme, blown off-course by the drought in 1992, has progressed rapidly since April, when steps were taken to liberalise investment and exchange controls covering individuals. This season's rains have started well and GDP growth of at least 4 per cent is possible in 1995, though it will take until 1995 to return to 1991 output and export levels.

Inflation, which peaked at almost 50 per cent in August, 1992 has halved to 24 per cent on a year-on-year basis and will average 28 per cent for 1993, against 42 per cent last year. Output has started to grow again, after a 7.7 per cent fall in real GDP in 1992, but there will be only marginal expansion this year.

Donors are expected to question the World Bank's forecasting record, which as recently as June predicted 7 per cent growth, but now estimates a mere 1 per cent.

The bank's forecast, in a paper prepared for the Paris meeting, of export growth (in US dollar terms) of more than 10 per cent annually for the next three years may be treated cautiously. Not only is this faster than growth rates forecast for world trade (5.8 per cent a year), but it is in sharp contrast to Zimbabwe's performance over the past five years, when exports have fallen almost 10 per cent.

CORRECTION

Shaul Eisenberg

An article published in the Financial Times on December 8 incorrectly stated that Mr Shaul Eisenberg of the Eisenberg group of companies had recently hosted a visit to Israel by the governor of Jiangsu province, China. Mr Eisenberg actually hosted the governor of Jiangxi province.

Furthermore, Mr Eisenberg points out that his United Development Incorporated has had discussions about the possibility of co-operating with Burger King to open a chain of restaurants in China but has not won the franchise as we reported.

Detailed negotiations have not yet begun, Mr Eisenberg says.

Presidential power in voters' hands

By John Lloyd

Under the draft constitution presented to the Russian people yesterday, President Boris Yeltsin could become one of the world's most powerful, democratically elected, presidents.

It is seen as an authoritarian constitution by much of the opposition. But even among Mr Yeltsin's supporters, it has been seen as dangerous, in as much as it gives power to one individual in a state with authoritarian traditions and a shallow experience of democratic practice.

The system proposed would have the president at its undisputed and all but unchallengeable apex. He would be head of state, of the armed forces and of the Security Council – this last a potentially powerful body with no clear boundaries to its remit. His powers to appoint premiers, judges and central bank chairmen would generally be conditional on approval from one or both chambers of parliament but he has the authority to issue decrees wholly independent of parliament, or any other level of power – save that these decrees must not flout the constitution.

This might mean that in any unresolvable dispute between the president and the parliament, the president could resort to a decree.

The president can be impeached, though only for treachery and serious crimes, and not on grounds of breaching the constitution. Even then, the process would depend on two-thirds of both houses agreeing within three months of the constitutional court's upholding the decision to attempt to impeach.

The constitution itself is virtually untouchable as three-quarters of the upper house of the parliament, representing the regions and republics, and two-thirds of the lower house, must favour the change.

The parliament has two chambers: the upper, or Federation Council, representing the interests of the regions and the lower, or State Duma, comprised of the fledgling political parties and the members elected on a first-past-the-post system from the constituencies. Both have the right to initiate legislation, and they have a particular responsibility for laws on the budget, federal taxes and financial, monetary and credit policy. However, laws on financial matters must in effect be agreed with the government, as draft laws in this area require a corresponding resolution of the cabinet before they are debated.

The effect is to strengthen the government's – and the president's – hands vis-à-vis the parliament; and to ensure that the parliament will be at its most influential when it works with the government and the president, rather than against them. Its influence will also depend on how persuasive it can be in presenting policies, and how flexible the president and government are in tailoring their proposals to the parliamentary majority to avoid gridlock. The balance will be a sensitive one.

The judiciary would be granted independence – and the judges life tenure – but again they face a tough battle to increase the standing and prestige of a profession traditionally ill-regarded in Soviet times and only fitfully authoritative since. The constitutional court could, and arguably should, emerge as a powerful arbiter of a constitution with many unclear clauses, taking its place beside the US Supreme Court and the German constitutional court as a check on government and a defender of rights.

But any constitution in a civil society as fragile as Russia's will be under test. None could be a guarantor against a revival of its authoritarian, centralist traditions. It will stand or fall not on the letter of its clauses, but on the politicians' and citizens' willingness to exercise restraint.

Yeltsin's power play

Under the draft constitution:

The president is:

- Head of state
- Commander-in-chief of the armed forces
- Chairman of the Security Council

He can:

- Propose the prime minister (whose appointment requires the consent of parliament)
- Dissolve the State Duma or lower house if it blocks his choice of prime minister or passes two votes of no-confidence in the government
- Pass decrees without reference to parliament
- Call parliamentary elections
- Appoint the central bank chairman and judges (with parliamentary consent)
- Call referendums
- Introduce martial law and states of emergency (with parliamentary consent)

The government

Will be proposed by the prime minister and confirmed by the president. It will comprise the prime minister and an unspecified number of deputy prime ministers and ministers, who need not be members of parliament, but can be

The government shall:

- Draw up the budget
- Ensure a uniform monetary, financial and credit policy
- Implement security, defence and foreign policy
- Ensure the rule of law
- Ensure a uniform education, health, social security and cultural policy

Parliament

Has two chambers which work separately, meeting together only to hear addresses by the President, the head of the Constitutional Court or foreign leaders

Federation Council (upper house)

Its 178 representatives are elected in the first instance for a two-year term, two each from the 89 Subjects of the Federation (see below). Thereafter, two representatives of each Subject will be appointed, one by the region's executive administration and other by its legislative council

State Duma (lower house)

Its 450 deputies will be elected from constituencies, half of them on a first-past-the-post basis and the other half by proportional representation from the lists of those parties that gain more than 5 per cent of the vote

The Federation Council shall:

- Approve presidential decrees on martial law and states of emergencies
- Call presidential elections every four years
- Approve the appointment of judges
- Approve legislation passed by the State Duma

The State Duma shall:

- Approve the prime minister
- Pass votes of confidence/no confidence in the government
- Pass legislation
- Impeach the president in cases of serious crime, though not including breaches of the constitution
- Draft laws on taxation, loans and budget expenditure, but only with consent of the government

The Subjects of the Federation number 89 and comprise autonomous republics, regions, districts and the cities of Moscow and St Petersburg

They shall:

- Elect their own parliaments
- Issue laws and regulatory acts which do not contravene federal laws and regulations
- Manage local property and services

The judiciary

The courts are independent, and their judges are appointed for life

- The Constitutional Court will resolve cases arising from the constitution, state treaties and disputes between the Subjects of the Federation
- The Supreme Court is the highest judicial body on civil, criminal and administrative law
- The Supreme Arbitration Court deals with economic disputes

Soldiers look for leadership in fulfilling democratic duty

A Stalin-era officers' club is transformed into voting station 1527 for the Taman Guards

By John Lloyd and Edward Mortimer in Yushkovo

Amid snow-topped tanks mounted on pedestals, between statues of Lenin and prominent Bolsheviks, beneath Soviet slogans praising their valour, the men, officers, wives and pensioners of the Taman Guards division yesterday voted for a new parliament. It was 10 weeks to the day since some of them were preparing to go to Moscow to shell the old one.

"How are we to vote, sergeant, how are we to vote?" one recruit shouted cheekily to his platoon leader as he and his comrades marched into the Stalin-era officer's club turned into voting station 1527 yesterday morning.

It seemed to be a joke. But inside the crowded little hall, where queues of servicemen and service families waited for their turn in the two little booths, the window ledges and table edges were grabbed by anxious men and women turning over the multi-layered papers, asking the officers in charge what to do.

Mr Robert Porogov ("my first name came from your famous socialist Robert Owen") was in no doubt how he had voted. "I'll tell you quite openly," he said loudly in the crowded hall. "I'm a communist and glad to be so, an internationalist, what's more. These elections are a bit of a sham, and the constitution is written just to give Yeltsin all the power. I think we'll do well," he said, greeting other, largely elderly, Tovarishchi (comrades) as they came in.

The Taman men, who came to Mr Yeltsin's aid during the August putsch of 1991 and did so again in October, would not speak of their role. Questions to one recruit who seemed willing to talk were politely cut short by an officer. Most of the voters, asked how they had completed their papers, replied with similar courtesy that we should mind our own business. "It's secret now," said one lady with a tight smile.

Apart from Mr Prorogov and his communist comrades there was an unsteady pensioner who said he had voted "completely democratic" and a widow who had voted for the nationalist Mr Vladimir Zhirinovsky.

The arrival – unannounced – of Mr Quentin Davies, a British Conservative MP and one of the international observers, caused a flurry. Mr Davies had broken away from his proscribed route to tour military bases in order to check if all was well in an area where control and corruption could flourish in secret.

Maj Kovalov, the president of the voting commission, smart in a civilian suit, anxiously demonstrated the orderly nature of the process and said that "we had two big problems – one, too little time to prepare and two, overcomplex voting papers. No, we had no meetings here, no agitation. No one seemed too interested. Many, many questions – everyone wants to know what to do. Of course we help them, but not on how to vote, that's entirely their own business."

Mr Davies, a former diplomat (in Moscow in the 1970s) and a Russian speaker, objected to the fact that several voters were filling out their large voting slips papers in the open, and that the two small boxes into which the slips were being stuffed would not hold the possible volume of paper without being changed. But he said: "It seems a lot of care is being taken to ensure that it's done fairly."

Later, at an air base some 20km further on (where MiGs instead of tanks stood on pedestals), Lt-Col Alexei Kubinka, head of the election committee on the base, said that more than half of his electorate had voted by 1pm.

Col Kubinka's view was that Mr Zhirinovsky was probably doing well. When people thought about voting for Mr Yegor Gaidar's Russia's Choice party, he said, they would first ask themselves – what have they done for Russia so far? Not much, was the unstated implication.

Zhirinovsky shows moderate face

By Leyla Boulton in Moscow

Mr Vladimir Zhirinovsky, who has talked of invading neighbouring Turkey and of conducting summary executions to end crime, was yesterday putting himself across as a moderate, and a man of the world.

Accompanied by his elegant wife to a Moscow polling-station, he did a star turn in four languages – English, German, French and Turkish – for reporters, focusing on the need to fight "la misère" as he put it in French.

But his main credo – repeated time and time again during his campaign – is to look after Russians, in Russia and in the former Soviet republics.

As part of that package, he has constantly stressed his Russianness and attacked all manner of foreigners, despite the fact that he himself was born in the republic of Kazakhstan, and has a foreign-sounding patronymic, Wolfovich. Skirting around the possible embarrassment that this might cause him with his patriotic anti-foreign constituency, he once said, when asked for his nationality, that his mother was Russian and his father was a lawyer.

He has successfully exploited the role of underdog. His autobiography reads like a Russian version of Hitler's Mein Kampf in terms of its self-pitying portrayal of a lad making his own way in the world despite all obstacles. Although some voters yesterday described him variously as "the incarnation of evil" and "deranged" – all recognise he is extremely articulate. His campaign appearances have been clear, humorous, and extremely easy to understand.

He can also point to being the only party leader in this election who has never been a member of the Communist party.

After graduating from the Oriental Studies and Law faculties of Moscow University, he worked as a lawyer, most recently as head of the legal service of Mir publishing-house until 1990.

In 1990 he founded his Liberal-Democratic party, at a time when other fledgling parties began to challenge the monopoly of the Communist party.

He first rose to prominence in Russia's first presidential election, in June 1991, when he captured 6m votes and came third among five candidates.

While Russia's Choice on Friday confessed it had been wrong not to take Mr Zhirinovsky seriously, some of his opponents in this election continue to suspect him of being a puppet manipulated by other forces.

Mr Yuri Boldyrev, a leader of the Yabloko group, said for instance that having been restored to the political limelight by the Kremlin when he was invited to help draft the new constitution, Mr Zhirinovsky would prove a "useful enemy" for Mr Yeltsin in the new parliament.

President's vision for Russia's future fails to convince his home village, which has found a new leader

Folks back home tire of Yeltsin

By Chrystia Freeland in Butka, Sverdlovsk region

President Boris Yeltsin can have found little comfort from his birthplace during yesterday's watershed in Russia's political development.

Voters in the isolated village of Butka, 5,000 people nestled in the heart of the Russian Urals, are deeply disillusioned with their most famous native son.

"I was a student in Moscow when Yeltsin left the Communist party, and at that time I was so proud to be from his home town," said Mr Oleg Sanochkin, the strapping 32-year-old agronomist who works at Butka's state farm.

"But now I am bitter about Yeltsin. I do not like his recent decisions. He has given the Russian village nothing." Like many in the town, Mr Sanochkin cast his vote for the conservative Agrarian party, because he believes it is the only force that will speak up for the countryside.

In the sub-zero weather, Butka's log cabins with sky-blue trimmings make a pretty picture against a landscape of frost-encased forests and snow-covered fields. But the villagers of Butka, who must endure a gruelling four-hour drive over bumpy roads to get to Ekaterinburg, the capital of the region, have no running water in their homes and have seen their purchasing power shrink as the prices of industrial goods have risen.

For these reasons, the villagers say they are looking to a new leader, in the form of Mr Eduard Rossel, who yesterday stood as an independent candidate for the upper house of parliament. The popular former governor of the region, he was ousted by Mr Yeltsin in November.

"Our region has found a new hero – Rossel," Mr Sanochkin says. That is bad news for Mr Yeltsin. The main source of contention between the two men is Mr Rossel's campaign for greater regional autonomy for the Urals, a political objective at loggerheads with Mr Yeltsin's draft constitution, also put to a vote yesterday.

But the differences between the two local heroes run deeper. An ethnic German, descended from the Volga Germans, Mr Rossel was left to fend for himself when his mother and grandmother were imprisoned in a Siberian labour camp at the outset of the second world war.

The homeless four-year-old boy survived by begging, but Mr Rossel says his memories of a stomach swollen by starvation make him wary of a radical approach to market reforms. Sympathising with these views and full of personal admiration for Mr Rossel, the disgruntled villagers of Butka, and like-minded voters in the region, are likely to elect him to parliament, where he could become a painful thorn in Mr Yeltsin's side.

However, the president can take solace from the attitudes of the urban electorate.

In heavily-industrialised Ekaterinburg, where Mr Yeltsin reigned as the regional communist boss, voters appeared inclined to support the democratic parties in parliament. According to an exit poll conducted by Interfax at one polling station – which may not be representative – Russia's Choice received 35 per cent of the vote, followed by the Yavlinsky group.

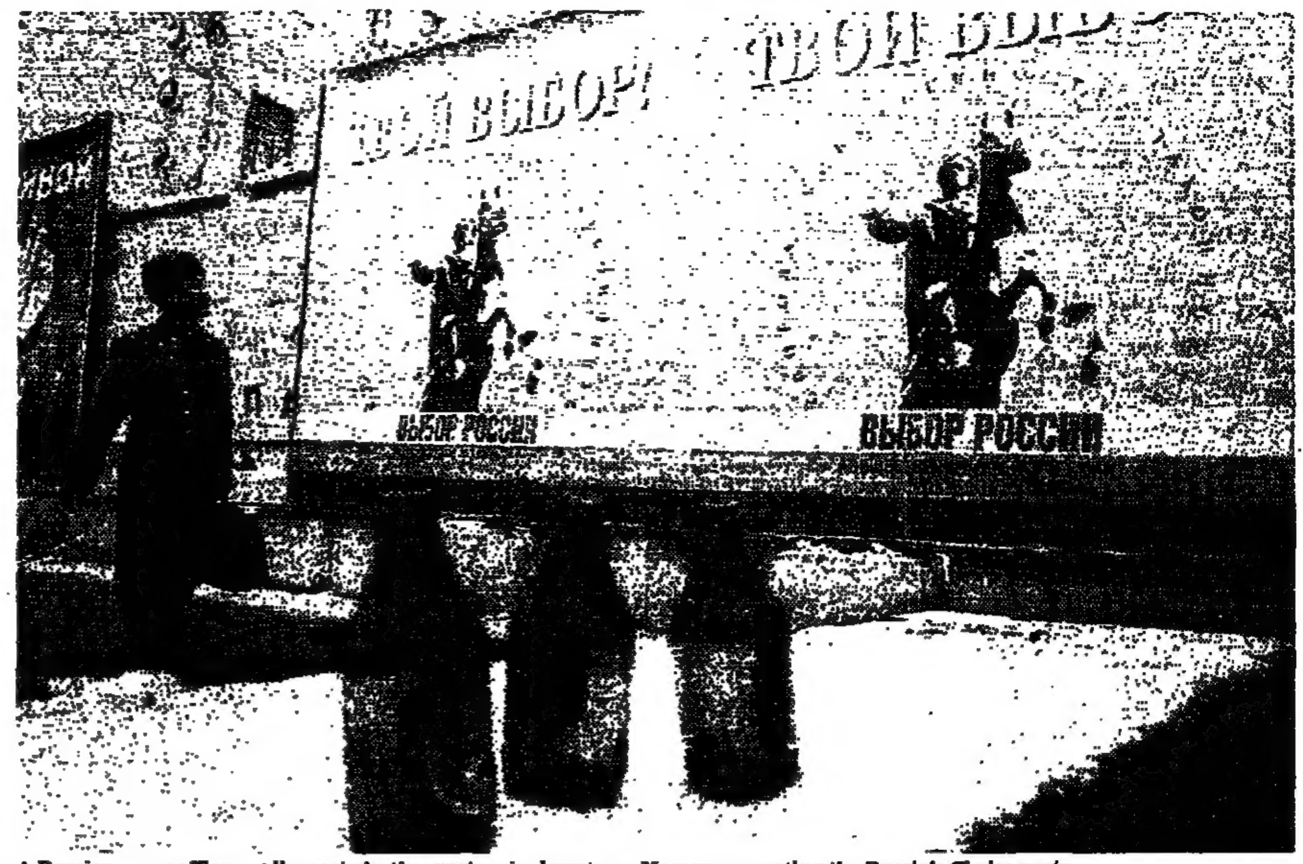
Even at a polling station in one of the city's working class neighbourhoods, voters seemed willing to give the democrats a second chance.

"I voted for Russia's choice," said Andrei, a blue-eyed, 26-year-old chauffeur. "They have already begun to break things up. We should let them finish doing that and then maybe they will build something new and better."

Decked out in the tracksuit and leather jacket which are the uniform of Russia's nouveau riche, Andrei, who quit his job at a troubled state factory to work for a thriving private concern two years ago, says his life has become better since Russia began the difficult process of shedding its communist skin.

Mr Yeltsin will be counting on urban voters like Andrei, who have begun to benefit from reforms, to drown out the discontented voice of the countryside and the pensioners.

But, no matter how the parliament shapes up, Mr Yeltsin can take solace from the fact that, if his native Urals were representative of the country as a whole, the crucial referendum on the constitution would go through.



A Russian army officer walks past election posters in downtown Moscow promoting the Russia's Choice party Reuter

'The only thing Yeltsin's strong hand has done is sack Rossel'

On this issue, paradoxically, the impoverished villages are proving to be a trump card for Mr Yeltsin. While voting in some of the cities was sluggish, the more conservative rural areas, where the Soviet tradition of enforced voting has been slower to die, appears to be coming to the constitution's rescue.

In Butka for example, election day was a high point in the slow provincial life of the village. A concert was held in the room adjacent to the polling station and, in typical Soviet fashion, foods unavailable on the bare shelves of Butka's only grocery store were on sale at a booth just a few feet from the ballot boxes.

Moreover, displaying the contrary impulses of voters the world over, even though they are not too keen on Mr Yeltsin's policies, the people of Butka like the strong-man constitution he has drafted.

"Yeltsin is right. In these times of troubles, Russia needs a strong hand," says Mr Sanochkin, one of the president's local critics. But, aware of the contradiction in his views, he adds: "Of course, the only thing Mr Yeltsin's strong hand has done so far is to sack our leader, Rossel."

Westernmost outpost torn between business and the military

Matthew Kaminski in Kaliningrad, where the Germans' return brings mixed feelings

The people of Kaliningrad were yesterday voting to an agenda *more polarised* than elsewhere in Russia, thanks to the city's unique history and location.

Cut off from the world for 50 years, and now cut off from Russia by three borders, the former cold war fort has offered a stark example of the power struggle between a rising business class and a declining military elite.

The residents of Russia's westernmost district, for centuries better known as East Prussia, are sharply split between pro-reform parties advocating an aggressive turn to the west, mainly Germany, and conservative groups hankering for a reconstituted Soviet Union.

Around 200,000 military personnel live among the city's population of just 1m, offering a strong constituency of support for Mr *Vladimir* Zhirinovsky's neo-fascist Liberal Democratic party.

"Power is in the hands of enemies and with them you can only talk through the barrel of a gun," grunts an older military officer strolling down the main Lenin Prospect, giving voice to the anxieties that have been putting Mr Zhirinovsky's party into third place in local polls.

But Kaliningrad has also developed a clear liberal tint in the last two years: Mr Boris Yeltsin got less than 40 per cent of the presidential vote in 1991 but over 60 per cent, which was higher than the national average, in April's referendum.

That shift, according to local politicians, has been caused by the opening of Kaliningrad to German tourists visiting the ancient city which they know as Königsberg – destroyed first by war and then by Soviet bulldozers – as much as by the proximity of the west itself. The arrival of the tourists has brought around Rbs1.2bn ($923,000) in direct investment.

"Peoples' mind-set has changed faster than in other regions," claims Mr Nikolai Tulaev, who retired as a navy captain to run in the elections on the Russia's Choice list for the State Dumma, or lower house of parliament. A poll by the Kaliningrad Sociological Centre last week showed his party running neck-and-neck with Yabloko, another reformist group, at around 14 per cent of the vote.

The region's liberally-inclined administration *hopes* the new parliament will get Moscow to loosen the bureaucratic noose while, simultaneously, increasing subsidies.

Reform groups see the first step, needed to let Kaliningrad develop its so far disappointing free economic zone, as having already been taken. Custom duties were eliminated this year, although export quotas on amber, oil and fish – the region's staple products – reflect what local officials call cumbersome meddling from the centre in the periphery.

"Give us less money, fewer products, but give us economic rights," says Mr Tulaev. "We'll make the money ourselves."

Such an attitude contrasts sharply with the interest of the city's conservative forces, which seek a strengthening of central control. *Focusing on Kaliningrad's significance* as Russia's last western war prize, Mr Zhirinovsky's supporters identify their mission as explicitly rejecting any German designs on the city, and, more symbolically, on maintaining the glory of the past.

"Strengthening defence is our number one concern. Kaliningrad must stay a strong Russian bastion in the west," says Mr Defermoev Dovzhenko, the Russian Communist party candidate, who rejects pressure from neighbouring states and reformers to demilitarise. Mr Dovzhenko is even ready for "Nato agitation", he says.

Both sides blame much of the city's economic hardship on the region's appendage status. Disputes over transport rights with its troublesome neighbour, Lithuania, *have slowed* the *trickle of much*-needed supplies, such as oil. But stores are full of expensive consumer goods brought from Poland. Drug abuse and organised crime have left the police flustered, with Kaliningrad the area hub for stolen cars.

The younger generation sees salvation to the west: Berlin is closer than Moscow. "Yes, it's better here than in Russia," said Svetlana Lekismnaya, a 19-year-old student, "but I've never been there."

But for the older generation, and especially war veterans who captured Königsberg in 1939, the prospect of increased German involvement plays to their fears: indeed, the Communist party has been renamed the Patriotic Party in Kaliningrad.

Mr Dovzhenko, its constituency candidate, blames "the threat of re-Germanisation" on "the fall of the USSR".

Such voices are loud. But Ms Olga Krupina, director of the Immanuel Kant Museum, hopes reason will win out in the German philosopher's former home: "The elections are needed to wipe out the old ideology."

Trades Union Congress to promote works councils for British transnationals

EU funds trade union campaign

By Robert Taylor, Labour Correspondent

The European Union has agreed to finance the British Trades Union Congress to help mobilise workers and unions to create works councils inside Britain's largest transnational corporations.

The move to establish consultation and information-gathering bodies for British industry is bound to infuriate the British government.

Ministers remain opposed strongly to the proposed EU works council directive that looks likely to come into force by the end of next year.

Under the opt-out from the social chapter secured at Maastricht two years ago by the UK workers in Britain will not be covered by the directive.

But Britain's large transnationals with more than 100 employees in two or more EU countries will have to provide a works council for their workers outside Britain. The directive will apply not just to the other 11 states of the EU but also Sweden, Austria, Finland and Norway as members as the European Economic Area.

The TUC, the UK's trades union umbrella organisation, believes British companies will have to include their British workers on the works councils because it will be impracticable for them to create such bodies for their foreign employees alone.

The EU, at the instigation of the European Parliament, has allocated a £190,000 budget for 1994 to the TUC to spend on efforts to win support among the relevant British companies to introduce works councils by agreement.

An office is to be established in TUC headquarters in London manned by a full-time official to carry out the work. The TUC has appointed Mr Nick Clark, an official from the GPMU print union to the post, initially for a year.

A wide range of activities is being planned for 1994 paid for by the EU. These will include:

- The creation of a computerised database of all British-based multinational companies which affiliate unions will be able to use as they lobby for works councils.
- The holding of seminars and meetings of affiliate unions in targeted companies to plan workplace strategies.

Britain's unions believe it will be impracticable for British companies to stop their employees in their domestic operations from joining the works councils.

Mr John Monks, the TUC's general secretary intends to make support for British union involvement in the European works councils one of his highest priorities for next year.

Many of Britain's more progressive large blue-chip companies with well established worker participation schemes such as Imperial Chemical Industries and Unilever will be urged by the TUC not to wait for, or try to resist, the EU directive but establish a European-wide works council for all their employees as soon as possible.

Over the past two years the EU has provided through the European Parliament an estimated £24m to fund meetings of workers employed by transnationals in preparation for the works council directive.

The largest sums have gone to the European Industry Committees – sectoral union federations affiliated to the European TUC.

A study published today by Industrial Relations Services reveals such meetings have covered a wide number of companies in engineering and chemicals as well as textiles and clothing, wood and building, transport and the press and media.

IRS estimate that last year alone over 9,000 worker representatives met each other to discuss co-operation funded by the EU.

- Yesterday Mr Monks called on Mr John Major, the prime minister, to convene a meeting with employer and union representatives to discuss how EU president Jacques Delors' plans to cut European unemployment, agreed in Brussels at the weekend, can be implemented in Britain.

"Mr Delors has put unemployment at the top of Europe's agenda where it belongs. We must make sure the UK gets its share of the new jobs", he said.

Heath calls for restored links with Iraq to help UK interests

By Alan Cane

The UK's diplomatic links with Iraq should be restored for political and humanitarian reasons, Sir Edward Heath said yesterday.

The former prime minister, newly returned from Baghdad where his talks with Iraqi president Saddam Hussein led to the release of three Britons serving long prison sentences on charges of entering the country illegally, said the diplomatic situation was unhelpful to British interests.

He told the BBC: "Our ambassador in Amman and his staff do everything they can from outside. It is not the same thing as being their on the spot and being able to use our judgment about what is going on"

He said that the Russian chargé d'affaires was looking after British interests and doing a good job: "But why do our activities have to be handled by the Russian charge" he demanded.

Former premier Edward Heath

Sir Edward warned that UN sanctions were not affecting the Iraqi president's standing in the country: "This action does not make Saddam's people hostile to him.

"It puts them on his side because they resent very strongly the way they are being treated".

Sir Edward urged that talks should start with Tariq Aziz, Iraqi deputy prime minister, to seek a solution. The situation was also alienating other Middle Eastern countries which wanted to resume business with Iraq: "Iraq is not the only one suffering with these arrangements" he said.

He was not calling for an immediate end to sanctions but for greater speed in Iraq's compliance with UN resolutions.

Meanwhile, Lady Olga Maitland, Conservative MP, called for international action to free foreign nationals still held in Iraq after the Gulf war. She said there were 625 Kuwaitis and 61 foreign nationals from more than 30 countries in Iraqi jails' "Iraq's continued refusal to release or even acknowledge the whereabouts of these prisoners is illegal under international law," she said.

Britain in brief

NZ model urged for bank status

The government will come under pressure this week to cede greater independence to the Bank of England.

The all-part Treasury Select Committee is expected to call for a degree of autonomy that would bring the Bank of England more into line with the New Zealand model.

Its report, to be published on Thursday, coincides with a drive by one of its members, Mr Nicholas Budgen, for greater transparency for the Bank of England.

Mr Budgen, a leading Euro-rebel, said: "The problem at the moment is that monetary policy can be changed without anyone knowing what is happening."

By calling for the publication of guidelines for monetary policy Mr Budgen argues that the Commons would have more, not less, control over the Bank of England.

In New Zealand the government has a contract with the central bank.

The main element is the achievement by the latter of inflation within a specified range, 0 per cent to 2 per cent in the case of New Zealand. The penalty for failing to hit the target can be the dismissal of the governor.

Sir Robin Butler, the cabinet secretary, is to visit New Zealand next month, when he is expected to examine the workings of the country's Reserve Bank.

Ministers have said they will consider all recommendations by the Treasury Select Committee and are open to proposals from other quarters on the future of the Bank of England.

Mistrust found in construction

Guidelines aimed at reducing contract abuses and litigation in the £45bn a year construction industry will be published today as the first stage in a wide-ranging review of business practices in the sector.

The review, jointly financed by construction employers and the Department of the Environment, is thought to be highly critical of adverserial attitudes between companies and clients which it says have soured commercial relationships and damaged the industry's reputation.

The interim report by Sir Michael Latham, former Conservative MP and a previous director of the Housebuilders' Federation who led the review, is understood to refer to a climate of deep mistrust and a disturbing atmosphere which had led to considerable dissatisfaction in the industry.

YT leavers 'quit early'

A quarter of young people leaving the government's youth training scheme become unemployed while only a third are gaining qualifications, according to a report published by the independent Unemployment Unit and Youthaid. As many as 52 per cent of all young people on the scheme quit early. The highest unemployment levels of YT leavers is in London with 29 per cent.

The figures come from the latest YT leavers survey covering the period from April to October last year.

Unions used to reach workers

The number of large companies which use trade unions to communicate with their employees appears to be rising again after a sharp fall in the late 1980s, according to a survey by Vista, an employee communications consultancy.

Vista received replies last month from 375 of Britain's largest companies, employing a total of 2.2m staff, and 60 per cent said they used trade unions to brief staff.

That figure compares with 53 per cent in a 1989 survey based on a broadly similar sample, which was itself sharply down from 62 per cent in 1985.

Most employee communications experts are highly critical of managers who rely on unions, or noticeboards, to talk to employees.

Peter Walker, head of Vista Communications, is one such critic: "This shows the failure of British managers to take full responsibility for briefing their own staff direct."

As many as 95 per cent of the respondents – mainly chief executives or main board directors – said that trade union briefings reached all staff. Mr Walker said this assumption was highly optimistic.

Comedians find alternative

The Comedy Store – the London club seen by many as the birthplace of Britain's 'alternative comedy' generation – is to move from its cramped premises in the Soho district of the capital's West End.

The Store, founded in 1979, became famous as the home of a brand of British comedy which was anarchic, satirical, and irreverent. It was also "politically correct" – attacking the racism and sexism in much traditional humour.

Comedians who first found fame and a wider audience at the Comedy Store include Ben Elton, Alexei Sayle, and French and Saunders.

The new £500,000 club off Piccadilly will seat 400 and opening night comedians will be Julian Clary, Paul Merton, Jo Brand, Jack Dee and Eddie Izzard. But the club's most famous feature, the "open mike" spot where newcomers get five minutes to launch a career, is to be preserved. But the club points out that the success rate, below 2 per cent, is no laughing matter.

Smiling 'can cut stress bill'

Smiling can prolong life by reducing stress, leading to fewer accidents and less illness, according to the British Safety Council.

Launching Smile for Safety Week Mr James Tye, the council's director-general, said: "Smiling is the key to wellness and now is the time to start on the road to a happier, healthier, stress-free life."

The Smile for Safety Week is part of the council's campaign to counteract the destructive effects of stress. The council says stress-related disorders affect a third of the national workforce, resulting in the loss of 90m working days a year at a cost of £7bn.

Hot turkey...

The British remain determined to continue the seasonal Christmas traditions, according to a survey by NOP of 500 adults. On Christmas Day, 93 per cent will sit down to turkey, although 2 per cent will be eating the even more traditional goose. Nearly two in three will have spent between £100 and £500 on presents and one in ten will have spent between £500 and £1,000.

Pfizer says role of UK as drugs base undermined

By Paul Abrahams

The UK is becoming an increasingly unattractive site for drugs groups, according to the largest *non-UK* based employer of pharmaceuticals scientists in Britain.

Pfizer, the US drugs group, says the collapse of the UK science base, increasing government interference in National Health Service drugs spending, and growing violence from animal rights activists, are undermining the attractiveness of Britain as a base for pharmaceuticals companies.

The UK's pre-eminence in medicines research is under threat, warned Dr Peter Ringrose, senior vice-president of medicinal R&D at Pfizer Europe. "Six of the world's top 20 selling drugs were discovered in the UK. Britain has the highest per capita number of Nobel prizes of any country in the world. But there are now rising concerns about the UK as a site for pharmaceuticals research in the future," he said.

Pfizer's R&D centre at Sandwich, Kent, employs 1,250 research staff and is the largest investment by a US drugs group anywhere in the world. The *facilities, which have* received $300m of investment over the last five years, have doubled in size since 1987.

But Dr Ringrose said such investment could be threatened by increasing goverment controls on UK prices and demand for drugs. These include a 2.5 per cent price cut last month and the introduction earlier this year of lists of products doctors can no longer prescribe on the National Health Service.

This last measure means the government controls the price of 30 per cent of the drugs available in the UK, he says. In effect the NHS will only allow doctors to prescribe new products whose prices have been cut to the same level as older, cheaper products.

The attractiveness of the UK for drugs research was also *being undermined by the state* of the academic infrastructure, he said. The government's recent policy document on science, engineering and technology, was encouraging, admitted Dr Ringrose. "But so much damage was done to British universities during the 1980s that what is required is more than platitudinous comments from ministers," he said.

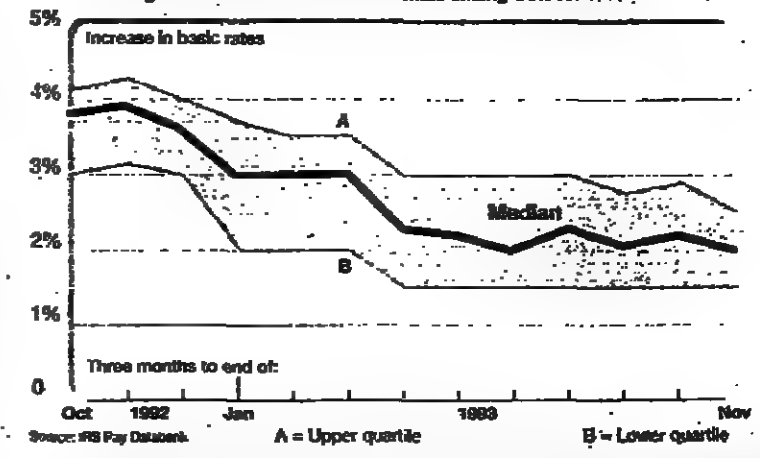
Increasingly animal rights violence is becoming the UK drugs industry's biggest concern, said Dr Ringrose.

For regulatory reasons medicines have to be tested for toxicity on two species, only one of which can be rodents. Some drugs are poorly tolerated by dogs and so have to be tested on primates. Most cardiovascular research is based on dogs, because their system is similar to humans.

"The whole issue of manufacturing is in focus," says Mr Hugh O'Connor, chairman and managing director of Pfizer UK. "Throughout Europe there will have to be rationalisation. What does not make sense is to manufacture on eight sites," he explained. The company presently manufactures in the UK, France, Germany, Belgium, Spain, Portugal and Italy. It recently sold its Greek manufacturing operations.

The tightening pattern of UK pay rises

Based on a rolling analysis of whole-economy pay awards for the three months ending October 1992 to the three months ending October 1993



Source: IRS Pay Databank A = Upper quartile B = Lower quartile

Median basic pay rises in Britain fell to 2 per cent for the three months to the end of October, according to provisional data from Industrial Relations Services published yesterday, Robert Taylor writes.

That rate was the same as for the three months to June, which was the lowest level for at least nine years. Median pay awards across the whole economy have fluctuated within a 2 per cent to 2.3 per cent band for the seven months since April.

IRS figures show a noticeable drop in the monthly level of pay rises in the upper quartile of private-sector workers – down to 2.5 per cent in October from 3 per cent in September.

By contrast there was a slight increase, from 1.5 per cent to 1.7 per cent, in the same period in the lower quartile.

The provisional data also reveal a widening gap between the level of pay deals in manufacturing compared with those in the private services sector. Basic manufacturing wage rate rises this year have been running at least 0.5 per cent higher than those in private services with an average gap for the year of 0.8 per cent.

The latest figures contain a higher-than-normal proportion of public-sector pay awards – affected by the government's 1.5 per cent wages policy – and a smaller number of basic pay rises in the private manufacturing sector.

The IRS figures refer to the level of recorded basic settlements and not to the growth in total average earnings. The findings are based on only 38 pay reviews in October.

Industrial Relations Review Vol 5449, IRS, 18-20 Highbury Place London N5 IQP. Subscription £50 a year.

Skill shortages threaten upturn in W Midlands

By Paul Cheeseright, Midlands Correspondent

Skill shortages have begun to appear in the west Midlands as the regional economy, still heavily dependent on manufacturing, starts a jerky recovery from recession.

Fears that such shortages, a characteristic of the region during the growth years of the 1980s and present until late 1990, could inhibit sustained recovery have been fuelled by a series of reports and supported by anecdotal evidence.

"If we keep on going with a few percentage points of growth, that can be coped with. If there is an upsurge, the problems will be there," warned Mr Bill Nicholls, the training specialist at the Engineering Employers' Federation West Midlands.

Last year, the consultants Cambridge Econometrics forecast that, of all the UK regions, the west Midlands would be the most likely to be hindered by skill shortages. By June 1993, the West Midlands Business Survey, conducted by Wolverhampton Business School, was reporting a rise from 8 per cent to 12 per cent over the previous six months in companies facing difficulties in finding the right staff.

The Confederation of British Industry and BSL, consultants, reported during the summer that more employers in the west Midlands and Wales – 13 per cent – than in any other regions expected skill shortages to limit output over the *following four months.*

Against the background of a long-standing regional shortage of managerial and professional skills, the Department of Employment said last month: "There are now more lower and intermediate-level occupations *being reported as difficult* to fill."

But the position differs. There is no present indication of skill shortages in Birmingham or Wolverhampton. In Solihull, the Jobcentre sometimes finds it difficult to fill specialised positions, for example, some computer software specialists. In Madeley, Telford, the Jobcentre has filled nearly every vacancy – "occasionally we have difficulty with specialised engineering things".

There are reports from Sandwell of problems in filling skilled engineering vacancies. Dudley is short especially of technical sales, setters and draughting personnel. Central England Training and Enterprise Council (Centec), based in Redditch, has surveyed 600 companies and found 21 per cent with vacancies which are hard to fill, half of which are professional and managerial and a third are engineering technicians.

Information, however, is imprecise. The Department of Employment has reduced in number its classification of occupations so its statistics are more vague. Further, computer glitches have deprived it of information about the length of time vacancies are available.

Employment analysts noted that difficulty in filling a vacancy could reflect low pay, bad conditions, unsocial hours or other factors. They also pointed to a mismatch between the presence of skills and the presence of work.

Slimma, the women's clothing manufacturer, is expanding from its base in Leek to Cannock, Staffs, because of a shortage of machinists. Mr Gary Green, operations manager of Grau, the Redditch anti-lock braking system maker, said he had had vacancies for software engineers for a year. "There are no major universities nearby you can feed off. The *nearest is Birmingham* and there you go into a pool with companies like Lucas trying to pull people off."

Massey tractor sales rise 22%

By Paul Cheeseright

UK sales of tractors from Massey Ferguson's plant in Coventry will be 22 per cent higher this year than last, reflecting an overall surge in the purchases of farm machinery.

The group said that by the end of the year it would have sold 2,300 Coventry-made tractors in Britain compared with 1,880 last year. A further 2,000 Massey Ferguson tractors made in Beauvais, France, would also be sold in the UK.

The company claims to be the largest tractor producer in the UK, but usually 80 per cent of its output is exported. The domestic market leader is thought to be Ford, followed by Massey Ferguson and then Case and Deere. Between them the *four supply* 80 per cent of the market.

The Agricultural Engineers Association estimated that this year UK farmers will buy 18,000 tractors and that there will be sales of a further 1,100 compact tractors with a power output of less than 40 horsepower. Total sales for 1993 of 19,100 compare with 14,296 in 1992, the most depressed year for tractor sales since the second world war.

The UK market has been *exceptional in Europe. "Farmers* have had money put in their pockets," said Mr Aaron *Jones, managing director of* Massey Ferguson.

"UK farming has had a good year, but it has been fortuitous. This is derived from the downward movement of sterling against the Ecu," said Mr Chris Evans, chief economist *of the Agricultural Engineers* Association. This year farmers have on average received about 15 per cent more revenue than they expected, he added.

The availability of cash coincided with latent demand built up because of low equipment purchases in recent years and the opportunity to take 40 per cent capital allowances until last November.

Massey Ferguson noted a start to the domestic buying surge last April. The rise in sales was one factor behind revisions to its production schedules and the hiring of 160 fixed-contract staff to supplement its normal 1,550-strong workforce.

In early 1993 the Coventry plant expected to build 13,500 tractors this year. Now it expects annual output to be about 17,000 for markets worldwide as, Mr Jones claimed, Massey Ferguson wins a larger market share in Europe and as distributors in Europe and North America build up stocks.

BUSINESS TRAVEL

Gillian Tett explains how best to survive air travel in Russia

Pack a sense of humour

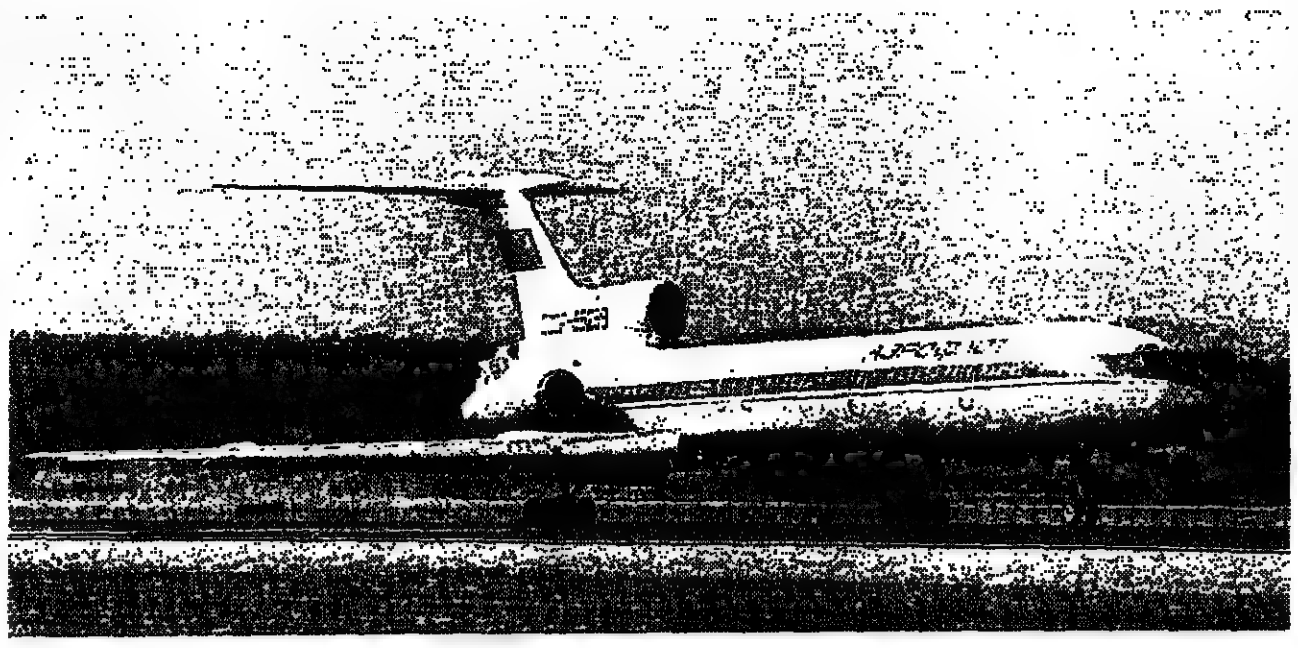
Nothing breaks the ice in a Moscow meeting quite like the word "Aeroflot". Of all the hazards dogging western business in Russia, flying has long been the most colourful.

There is the legendary tale of the traveller who set off to fly to Volgograd – and was deposited 3,000m away in Vladivostok instead. There are the every day epics of 12-hour delays, pet goats in the cabin and tarted-up air hostesses. And there is my own dinner party piece of the occasion I argued myself onto a flight to Baku – and found that other passengers were sitting in all the seats, luggage racks and toilets, which meant I had to squeeze in behind the pilot at the controls.

Now the good news for the faint-hearted is that alternatives are available.

In the last two years Aeroflot, once the monoply airline of the Soviet Union, has been broken up into 160 regional and republican carriers. Most still operate under the flag of Aeroflot, and sell tickets to foreigners through the central Aeroflot ticket agencies. The Russian transport ministry has recently urged the smallest carriers to re-unite, possibly as holding companies. However, the service of the different carriers varies significantly, not least because of the varying availability of petrol.

Meanwhile, 161 entirely new airlines have been registered as well, with two now offering scheduled services competing with Aeroflot.



Aeroflot, once a monopoly operator, has now been broken up into 160 smaller components, most still operating under its flag

One is the Transaero group, which offers reasonably priced flights between Moscow, Riga, Kiev, Alma Aty and other cities. The airline uses two Boeings and two Ilyushin 86's, mercifully redesigned inside. The hub is Sheremetevo 1 airport, one of the less unpleasant in Moscow. The hostesses, trained by Air France, are smart. And instead of the standard Aeroflot food – rubbery chicken squares and strange, fizzy juices – the fare on a recent Transaero flight from Alma Aty was a herb omelette, complete with button mushrooms.

The second new private company is the Chance airline, which flies three times a week between Moscow and Tblisi.

Chance's $150 service, like its name, is memorable. The tickets themselves are as flimsy as loo paper, but passengers are offered champagne and roses. The airline is too young to have established a meaningful safety record – but that is unlikely to deter anyone who has chosen to travel to Georgia.

A third alternative is to charter your own aircraft. Private jets can be hired from most west European countries, and if there are several passengers and destinations on the trip, the cost may not be too discouraging.

Aeroflot will also arrange charters and Russian army units sometimes offer their own aircraft for private flights, particularly in far-flung regions.

If none of these options is feasible, then you will have to use a scheduled flight from one of the former Aeroflot carriers. Even here, however, there are tactics which can help on any flight:

- If you are new to Russia, travel with a local. Having someone who can argue with officials can determine whether the journey is simply novel or nasty. Many airport officials outside large cities like Moscow will not speak English, and the system for check-in can be bewildering.
- Equip yourself for long delays, wherever you are flying. Take some food. Loo paper and whisky are also helpful. Above all, bring something utterly absorbing to read.
- Travel light. Recovering lost checked-in luggage is difficult. Although there is little leg room in the cabin, you can usually store extra hand luggage at the front or rear.
- If your aircraft suddenly dives, do not immediately panic. Remember Aeroflot pilots are trained fighter pilots, which makes them highly skilled.
- Finally, hang on to your sense of humour. Most flights do arrive, eventually.

More leg room for your money

Gordon Cramb discovers that there is a bonus for some KLM business-class passengers

Those with a long-haul flight ahead of them this winter, and an employer who is prepared to pay for a business-class ticket but no more, might wish to consider going Dutch.

On KLM, you could land a first class-type seat for the journey, without forking out extra cash for the privilege. The Netherlands flag carrier last month abolished its unprofitable Royal Class. It is reconfiguring its fleet to add seats in the tourist cabin and move business class to the front of the aircraft.

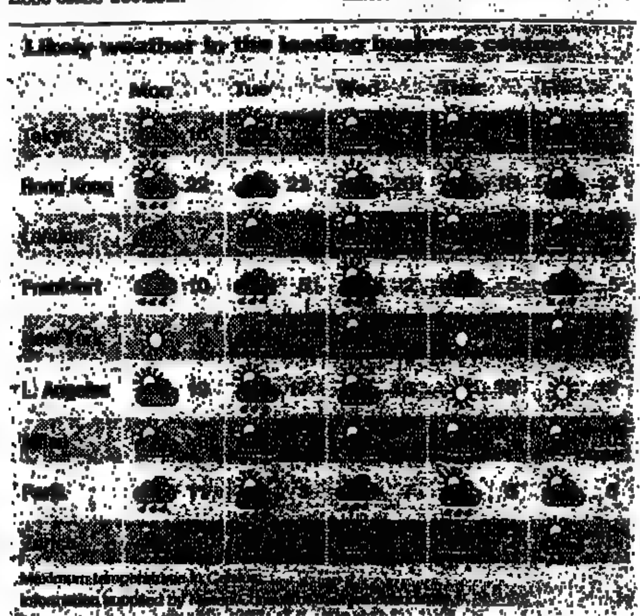
The process will take until March, and the airline has changed only one aircraft so far. On the rest, the former first-class cabin is untouched except for the menus. So for a club-level fare, business travellers who strike lucky can stretch out for a near-horizontal sleep.

So how can you get one of these seats, rather than a more closely packed and steeply angled one in the regular business-class section?

The best way is to request a seat allocation when booking, and ask about the configuration (as a rule, if it is an old-style interior, make sure the row number is in single figures). KLM is being a bit coy about this facility and its agents may need some prodding.

One way to improve your chances, and to benefit for further flights besides, is to join the airline's frequent flyer programme. The scheme – inevitably, it is called Flying Dutchman – may grant priority in seat preference and is offering double its usual credits for business-class travellers through the winter season, equivalent to those previously accorded to Royal Class passengers.

There is some inconvenience: the transit through Amsterdam's Schiphol airport can mean a long walk from gate to gate. You may be additionally hampered at the moment by building works. But you could score enough points for a free ticket back there, to stroll the city's canals another time.



Tunnel vision realised

Hardened businessmen and journalists burst into spontaneous applause on Friday evening as the driver announced that we were travelling at 100mph 40 metres below the seabed of the Channel on the first public journey through the channel tunnel, writes Andrew Taylor, Construction Correspondent, who was with the group.

The new Eurostar trains, which will not be operating commercially until next summer, will transport passengers in just three hours from the centre of London to the centre of Paris. The trains are still being tested. Friday's historic trip through the tunnel was made in a Thameslink Sprinter.

It may have been historic but it was not spectacular. After 30 minutes one tunnel looks much like another.

But the ride was exceptionally smooth. With the air-conditioning working, a guaranteed seat and a meal, it will be very comfortable.

Return fares to Paris and Brussels will match those charged by airlines. The first consumer test suggests the tunnel will be a real alternative for the business traveller crossing the channel – that is if British Rail can sort out the journey from London to the tunnel.

Trouble spots

Algeria: The British foreign office is advising against travel to Algeria in view of several recent attacks on foreigners, apparently by terrorists. A British resident and a Spanish visitor have been among those killed.

Malawi: Following gunbattles between the army and armed Malawi Young Pioneers, the situation is quieter. The British foreign office is not advising against travel to Malawi, but it recommends visitors should exercise care.

Lithuania: Several cases of diphtheria have recently been reported in Lithuania.

Strikes

Athens: Bus drivers on Friday called a halt to a two-day-old strike as a Christmas goodwill gesture, but pledged to resume their protests at government plans to renationalise the city's services.

The drivers, most of whom bought their buses in August 1992 when the conservative government privatised Athens's bus service, called a strike over the new Socialist government's plan to reverse the privatisation.

Sweden: Almost all Swedish air traffic control could be paralysed by a threatened stike of 5,000 controllers and a possible lock out by employers on December 13 and December 20 in a wage dispute.

Other news

Concorde flops: A special 32 hour Concorde flight around the world to celebrate the New Year was cancelled after only 10 people expressed an interest in the tickets selling at $25,400 each.

Air deal: Britain and Latvia signed an air treaty last week which allows scheduled flights between the two countries for the first time.

Test case: A High Court case by a schoolgirl and her teacher against the Association of British Travel Agents over a £10 holiday insurance premium that was not repaid when one of its members went out of business ended last week. The judge has not said when he will make a ruling.

Mr Robert Webb QC, counsel for the pair said there were about 25,000 cases, with a value of £250,000, resting on the outcome which had wide implications for the industry.

Smoke Free by 1995: Cathay Pacific has taken a step closer to becoming a "smoke-free" airline. From March 1994, all Cathay Pacific flights between Hong Kong and Europe will be no-smoking. This will bring the total no-smoking flights operated by the airline to 70%.

FINANCIAL TIMES SURVEY

TELFORD AND SHROPSHIRE

Monday December 13 1993

While the development of Telford has attracted overseas investment and brought new high-tech industries into the county, the worry is that the pace of indigenous growth is too slow to create enough jobs for an expanding population, writes **Paul Cheeseright**

Building on success not an easy task

Mitac, the Taiwanese computer company, will *today open* its £3.8m new plant in Telford. At the same time, the US group, Augat, which already makes telecommunications equipment in the town, will announce a factory expansion – so that it can make automotive components – and the establishment locally of its European headquarters.

Telford *would perhaps have* preferred larger investments than these with which to celebrate the anniversary of its creation 25 years ago as one of Britain's new towns, with a brief to provide new homes and jobs for overspill population from the industrial West Midlands. Modern factories and office blocks stand as testimony to its achievements but recession at home and overseas has slowed the inward movement of companies.

Since 1968, more than 130 companies from 18 different countries have settled in Telford. Most came from elsewhere *in the West Midlands* but US groups were also among the early arrivals, and in the 1980s the pace of Japanese investment quickened. About 35 per cent of all Japanese companies investing in the UK have come to Telford, including NEC, Ricoh, Maxell, and Epson. The hope now is that Telford will draw companies from the growing economies of the Pacific Rim.

Telford's attractiveness owes much to the availability of land, the ease of movement around the area, and the local workforce's willingness *to* adapt.

It has been able to meet the needs of high-tech industries requiring open space, in a way which the Birmingham-Black Country conurbation cannot.

FLOREAT SALOPIA

But the town has not escaped the effects of recession and, as the UK economy tentatively resumes growth, the immediate prospects for Telford and Shropshire are mixed. Expansion in the short term is likely to depend more on indigenous growth than on injections of capital from outside the region, yet the pace of such growth seems certain to be slower than needed to make an impact on unemployment, or *to cope with the demands of an* increasing population.

Employment growth has recently been weak. The latest West Midlands business survey carried out by Wolverhampton Business School concluded that growth had taken place *everywhere in the West Mid*lands except Shropshire.

However, the same report showed that the proportion of companies in the county reporting increased sales was the highest in the region. "You would not expect everything to be smooth coming out of recession," Professor David Walker, head of the centre for business research at *Wolverhampton* University, argues. "Until now, Shropshire has fared reasonably *well. It does not have* heavy industry winding down. It has shown growth on the level of Coventry, but it is not so dependent on the motor industry."

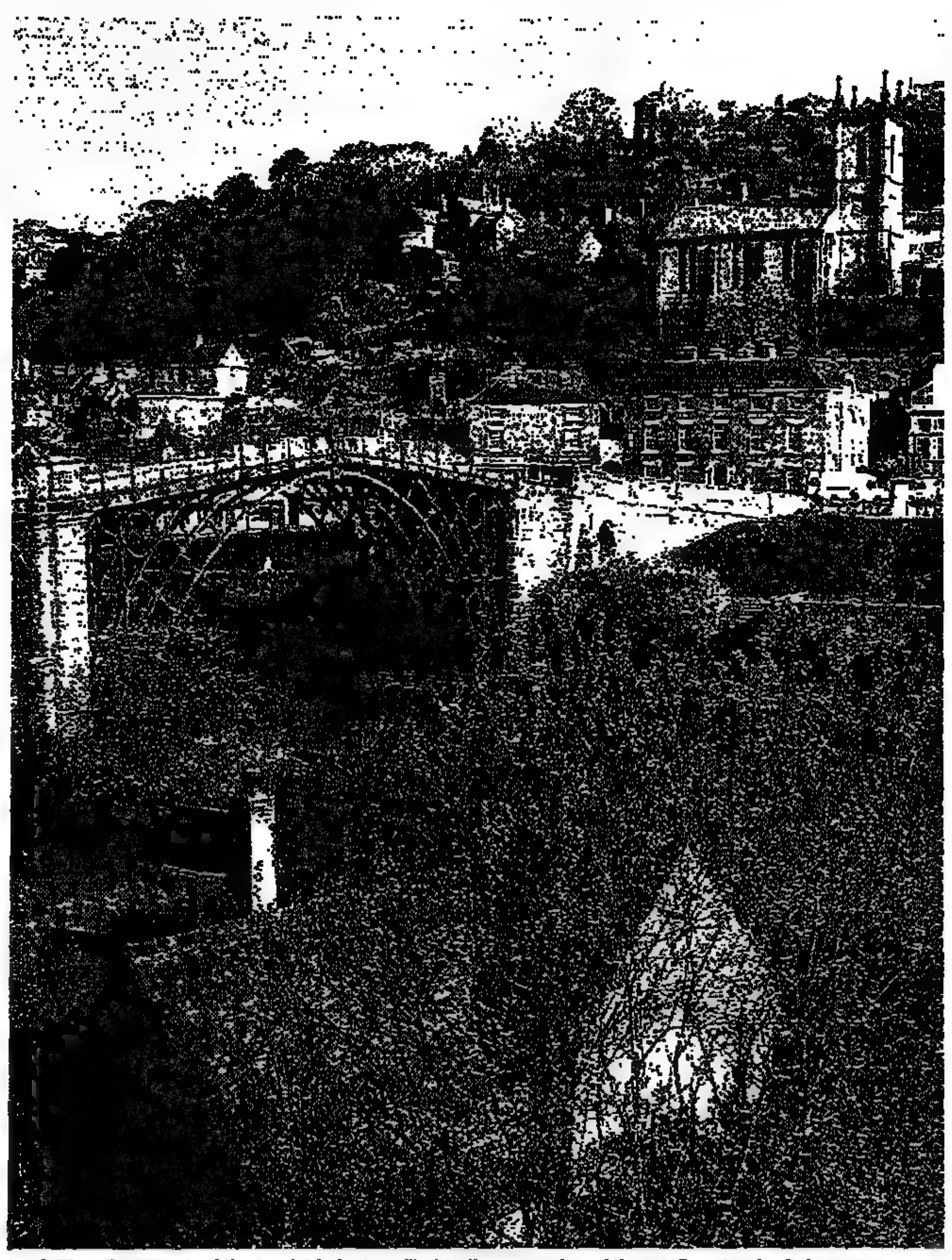
Indeed, heavy industry wound down decades ago, leaving a legacy of disused mine shafts and derelict land. Clearance of that land as part of the development of Telford made it possible to attract a new generation of light, high technology *industries and confirmed* Telford's position as the industrial centre of the county.

It has been a *costly* process. About £1bn of public funding has gone to Telford, drawing in a further £800m in private sector investment but the town must now fend for itself without subsidy. The main incentives which Telford was once able to *offer potential investors* have been removed: its intermediate *status* as an assisted area *disappeared this year*, its enterprise zone with the associated capital allowances and rate rebates is not only expiring, but is nearly full.

The development corporation which guided Telford's development has been wound up. "It was an *engine fuelled by* vast sums of money. Taking it away leaves a hole," says Stephen Jury, chief executive of the Shropshire Training and Enterprise Council.

Responsibility for promoting the area has passed to the Telford Development Agency, established by the Commission for New Towns, Wrekin dis*trict council, the local author*ity for the area, and Shropshire county council. It is continuing to target existing sources of inward investment and new potential investors.

A scheme designed to appeal to internationally mobile executives and their companies is "Sky Park". The plan, currently with the Environment *Secretary, envisages a develop*ment of 63 homes with hangars at the bottom of each garden linked to a central runway which executives could use to commute to business destinations.



Ironbridge: the growth of the tourist industry, allied to the expansion of the retail sector, is vital

More generally, however, the town must now rely on its basic advantages to attract newcomers: the availability of greenfield sites and labour, and easy access to new office accommodation.

At county level, too, concern is focused on establishing factory space and communications for new corporate residents. "Once the infrastructure is there, people will come," says Bruce Crawcour, economic development officer at *the county council.*

The challenge of providing enough jobs for a growing population is, however, a big one. A study carried out by Warwick University for the Tec predicts population growth in the county of 34,200 during the *decade to 2001.*

"A substantial number of jobs will have to be created. It is difficult to see how this can be achieved without inward investment," warns Mr Jury. If employment growth does not resume, according to the Warwick *study*, "the projected pattern of population change implies that the Tec area will *contain substantial numbers of* unemployed people aged over 35 by 2001, [particularly in] areas such as *Telford* which have attracted migrants who will be in this age group by 2001."

Telford can be expected to grow, but the greater number of jobs will not be in manufacturing, where higher productivity is leading to less rather than more employment, but in the services sector. Thus, the *growth of tourism and leisure*, allied to the expansion of the retail sector, is vital.

So far, in the county as a whole adjustment to a slowly rising population and the recession has been relatively smooth. Unemployment rates have generally been below the national average.

The highest rates of unemployment have been in The Wrekin, and in Oswestry, both dependent on manufacturing. Both have *pockets of* structural unemployment, with rates at about 20 per cent. Indeed, *concern in Telford* about deprivation was such that the Wrekin Council made a bid – unsuccessfully – for City Challenge funding from the government.

Some farms in the hill areas have been running at a loss and as wealth has diminished, services have been run down and some communities have *found themselves locked into a* spiral of decline.

"The most important thing for strengthening the rural economy is to have a first class telecommunications network. This is the way of removing rural inaccessibility," says Mr *Crawcour.*

The search, therefore, is for economic diversification, and, if it could be achieved, stronger local control over important economic decisions affecting the county.

In a county where companies *employing more than 200 work*ers make up just 1 per cent of all companies, Telford is the centre for the larger manufacturing groups, and from the New Town's earliest days the growing diversity of their ownership has been a source of strength and of innovation in product development.

But, it is also a source of *weakness in that local manag*ers often have only immediate operational control. The decision to move the work of Venture Pressings to Halewood was taken, for example at Ford headquarters, and not in Telford where the factory is based.

TELFORD 25 *the first twenty five years*

Mingled with the satisfaction that companies have set up operations in Shropshire is the fear of instability that comes from being largely a branch economy as far as bigger companies are concerned. "We suffer from the lack of large companies owned and managed in the county," Mr Crawcour says.

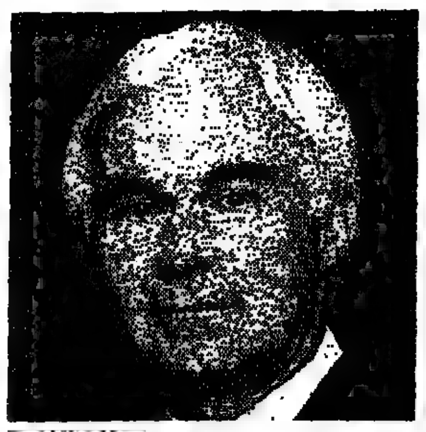
*To create a stronger eco*nomic infrastructure for growth in the south and west of Shropshire, the county council is applying to the European Commission for £20m of funds. It is a modest sum compared with that which helped to create – in the development of Telford – a focal point for growth in the Midlands.

The hope, however is that it will generate conditions in which further growth can take place.

Hazel Duffy looks at the young town's efforts to attract newcomers

Fledgling finds its wings

Christopher Mackrell



David Hutchison

Telford Corporation property for rent: land for housing is priced at nearly £200,000 an acre

Telford was 23 years old when it was abandoned by its parent, the Telford Development Corporation, in 1991. The corporation had been the guiding influence of the new town from its inception. Abandonment, forced by the government, was hard and Telford protested to no avail.

But Telford does not have to stand entirely on its own two feet – yet. The corporation's responsibilities were split three ways. The government's own body, the *Commission for New Towns* (CNT), was assigned to dispose of 2,500 acres of land that had been in the ownership of the corporation.

The Telford Development Agency, was set up by the CNT, Wrekin District Council and Shropshire County Council to market the town and attract inward investment. The district council resumed planning powers, except for the acreage which is *the responsibility for the CNT*.

Arguably, at 23, it was time for Telford to get out from under the wings of its parent. Those who opposed, did so on similar grounds to those used by other new towns – they were not yet ready to be launched into a harsh and highly competitive world without the special care implied by the development corporation structure.

Telford has been helped to the tune of about £1bn *from government* over the past 25 years, complemented by £800m investment by the private sector. This may seem generous, given a population of only 120,000, *although others might compare it* with the public subsidies that have gone to London Docklands over just 10 years.

Young Telford *has had some tough* times in its short life. It was hard to tempt manufacturers into the area when communications with the outside world were as poor as they were until the M54 was opened in 1983. Meanwhile, the existing industrial base in the town was crumbling fast. Tens of thousands of Telford jobs disappeared in the recession of the early 1980s, when so much of manufacturing industry was unable to live with a sterling *exchange rate* dominated by North Sea oil.

The past 10 years have been much more successful. Telford Development Corporation *had been far sighted in the 1970s*, seeing the threats to manufacturing industry on the horizon, and reading the omens for a town which depended on corporate parents which were located anywhere but in Shropshire.

The corporation knew it had a lot to offer, particularly to Japanese companies which were starting to look towards Europe, and to towns which could offer greenfield sites. It went out and marketed, and got the companies in.

Christopher Mackrell, the CNT's director for the West Midlands (Telford and Redditch), and former commercial director of the Telford Development Corporation, says that 35 per cent of Japanese investment in the UK is in the town.

It has taken time to build up this level of confidence, however.

The plight of the town in the early 1980s was such that the Treasury agreed to an Enterprise Zone to help the town become more competitive. The rates holiday, and attractive terms for writing off capital expenditure against tax liability, have helped to sell most of the 250 acres EZ. Just 20 acres remain undeveloped. Unlike in the early days of Telford, when factories were predominantly rented, most of the property has been bought by investors or the occupiers of the premises.

Under the New Towns Act 1985, the CNT, which will be wound up itself in 1998, is charged with disposing of a land bank equal to 2,500 acres. It is all outside the EZ. The land is spread mostly around the outer ring of the town. It already has outline planning permission for development, *either for housing, or employment*, most for industry, but also for commercial purposes. Sites can be assembled if this is what a client wants.

The grant of formal planning consent for specific projects lies with the CNT, in conjunction with the Environment Secretary. However, it is highly unlikely that an end purpose which did not meet the approval of the District Council would be permitted.

The land bank is important from the point of view of the West Midlands region. Greenfield sites are a rarity, given the government's leaning towards disallowing further development of green belt land.

The Telford land bank, according to the Telford Development Agency, represents about 40 per cent of good quality land in the region. It is a powerful marketing tool within the region, although Telford has plenty of competition from outside the region.

Industrial land is priced at about £115,000-£125,000 an acre, land for housing at nearly £200,000 an acre, prices which, Mr Mackrell says, "provide a yardstick for negotiated disposals", to current occupiers, as well as to prospective developers.

In the two years, since the disposal edict was issued, £20m has been realised in land and property sales by the CNT in Telford. This breaks down into about 100 acres sold for housing, 25 acres for employment.

Wrekin District Council also owns property, worth about £40m, which it rents out at £3.50 to £4.50 a sq ft for industrial users, and between £8.50 and £10.50 a sq ft for offices. The Council works closely with the CNT. It is content to let the CNT, with the Development Agency, market Telford, acknowledging that they have far superior networks of international contacts than a district council could muster.

Among existing businesses, however, the Council is working hard to promote networking. Under the old system, the Development Corporation was responsible largely for external relations with the private sector. Now, increasingly, it is the council.

David Hutchison, chief executive, admits that they are still learning. But he points proudly to the Business Link (One Stop Shop), opening next year, which Telford has managed to secure with strong Council input. Before the end of the decade, and the wind up of the CNT, Wrekin will have acquired the skills of parenting.

Hazel Duffy finds the real test of the town plan was its adaptability

Coping with the unexpected

John Madin, architect of the plan

Unrelenting blackness hung over the back-to-back slums of Birmingham and the aptly named *Black Country* well into the 1960s. The worst conditions prevailed in factories and offices.

Then in 1968, Telford – the town was *named after the inventive British engineer* – was planned as an overspill from the huge West Midlands conurbation.

Demographers at the time were predicting that the population of the area would grow. The new town was designed to accommodate this projected growth and *to put people in improved surroundings*.

Although the idea of creating new towns to relieve population in urban areas was unpopular in some quarters, ministers had decided that in the West Midlands some relief had to be provided.

While a predominantly rural county, the chosen *new town area of Shropshire* was far from being a rural paradise of green fields on which young architects could unleash their ambitions.

John Madin, architect of the plan, says his first inspection of the area revealed "mile upon mile of derelict land running from the *Severn Gorge to the A5*". This is where the Industrial Revolution was born. Spoil heaps littered the area and he and his partner later discovered 3,000 *mine shafts*.

The task was twofold: to plan for a new town and to reclaim this large tract of derelict land. But the real test of the Madin plan – based *originally on the* Dawley area, in the south of what is now Telford, and expanded by 1968 to include the area to the north – was whether it *could be adapted to the political and eco*nomic shifts which lay ahead.

The plan had to be strong but flexible. "A *plan which would, as the town was* built, accept economical and social changes from then into the 1990s. In the early '80s that seemed a long way off. It seemed as far away and as unrealistic as George Orwell's 1984," says Mr Madin.

In the event, Telford had to be shaped on a smaller population than originally planned

In the event, Telford had to be shaped on a smaller population than originally planned. Instead of the forecast 225,000 *by the early 1990s the 1991 census puts* the population at 119,000 and this is not expected to increase much beyond 140,000 in the next decade. Part of the reason *behind the discrepancy in the figures* was that families were turning out to be smaller than expected. Also Telford did not attract as much employment as had *been foreseen*.

The Midlands economy – which it was assumed would provide most of the jobs *for Telford – did not go on expanding* beyond the early 1970s. Existing industry in the Telford area, notably the companies in the GKN complex, shrank.

The planner Professor Colin Buchanan, whose report on traffic in towns was published 30 years ago, was more successful in his predictions. Professor Buchanan said roads and other facilities would have to be built to accommodate the growing number of cars and trucks.

While, *to a large extent*, Professor Buchanan was ignored, Telford – the first new town to be planned post Buchanan – shows his influence.

The original plan specified a town motorway, linked to the main roads, connecting residential areas with industry and the town centre. A secondary road *system connected the residential areas* – a group of villages, based on the original villages in the area and supplemented by new clusters – and access to the town centre. Local distributor roads joined up with the inner and outer roads.

This concept was expanded to include *the larger area five years later*. Pedestrians were not to be neglected. Walkways connect the housing clusters with schools, community facilities and transport to the *places of work. Green swathes of land* have survived between the villages. A park was built in the centre.

One vital road link was missing for the *first 15 years* – the connection with the M6, although Mr Madin says he had told ministers at the outset that Telford must be connected with the new motorway network if it was to succeed.

The M54 was opened in 1983. Continued government restrictions on industry *expanding into areas other than those of* persistent high unemployment was to prove another shackle on the growth of Telford into the 1970s.

Those who did move there, however, were greeted with houses and their own small gardens. Tower blocks were discouraged in Telford, in spite of their huge popularity with architects and treasurers in the cities.

The first houses were almost all built by the development corporation for rent to standards which were higher than *those the private housebuilders could* afford to specify. Space was set aside for private housing, however, much of which has since been taken up.

Planning in the 1960s assumed that automation was going to allow for more leisure time. The white heat of technology was to be turned to the benefit of everybody, giving them more money and more time to enjoy themselves.

In fact, it was unemployment which struck Telford in the 1979-1982 recession. The fall in spending power and the slower than forecast growth in population meant that investors were reluctant to take up *the Telford opportunity*.

This has gradually changed as the town succeeded in persuading the government to designate an enterprise zone within its boundaries and as the development corporation attracted a new and more diversified group of employers from other parts of Britain and from overseas.

The town centre has expanded and attracts shoppers from a wide area, although the shopping centre does not look like the one that was originally planned, which specified shops to be built on a canopy, with car parking facilities beneath.

Instead, the shops are surrounded by open-air car parks as in out-of-town shopping centres. But, as Telford matures developers may be persuaded to work up improved schemes.

Many things did not turn out as planners in the 1960s had envisaged. But Mr Madin, *who now runs an international* design group, believes that his original plan – dubbed a plan for "freedom city" in 1969 by the Birmingham Evening Mail – was largely respected by the development corporation.

Above all, the plan proved to be flexible enough to cope with the unexpected. And the town is gaining the self-confidence that is to be expected of a 25-year-old.

Large companies help stabilise the economy, says **Paul Cheeseright**

Town loyalty is what counts

Muller, the German dairy foods group, this year will produce £125m worth of yoghurt at its new custom-built plant at Market Drayton. Shropshire would *like to have a few more companies* like it. Indeed, the county council made abortive bids to attract Toyota, the Japanese motor manufacturer, and Fortex, the New Zealand, meat processing company.

The reason is not far to seek. Shropshire is a county of small towns. Loyalties lie with the towns rather than the districts of which they are a part. Large companies help to stabilise the local economy of particular *areas. If they close, then the* immediate effects can be far reaching on relatively small communities, pushing them into a spiral of decline.

Outside Telford, the largest concentration of people and *economic activity* is Shrewsbury, the county town. It is not only a modest manufacturing *centre in its own right* with companies such as Perkins Engines and Vickers Precision *Components, but also a significant* retailing and financial services centre, drawing in business from both the county and mid-Wales.

Its diversity and size meant that Shrewsbury survived the *recession in better shape than* the industrial centres. Analysis of unemployment on a district *basis by the West Midlands* Enterprise Board showed that, at the end of the summer, unemployment in Shrewsbury *was 8.3 per cent compared with* 10.6 per cent in The Wrekin, of which Telford is a part, and 10.3 per cent in Oswestry in *the north of the county*.

Where there is less diversity, local unemployment rates have been higher. When J.P. Woods closed its poultry processing plant in Craven Arms, south Shropshire, with the direct loss of 500 jobs, it threw out of work 6.5 per cent of the local labour force.

New investment to compensate for that shock to the local economic system has not been forthcoming.

The combination of national recession and the *relative* decline of agriculture led to a chain of plant closures. At Ellesmere, in the far north of *the county, closures and or* reductions in plant size at companies like Dairy Crest, Swan Hill Engineering and Ellesmere Electronics caused 600 *jobs to disappear*. At *Express* Dairies in north west Shropshire, cheese making stopped and 140 jobs were lost.

When Farmgas, producing energy from farm waste in Bishops Castle on the south *west side of the county*, transferred operations to Derbyshire, 100 jobs went. St Ivel's decision to close a yoghurt *plant in Whitchurch, north* Shropshire, led to the loss of 180 jobs.

Whitchurch has become of concern to the county council whose economic officials noted that "there has been a chain of *redundancies over the last 10* years. The town has lost its manufacturing heart. There is *no longer a major manufac*turer. The biggest employer is Tesco (the supermarket group). Market Drayton was going the same way".

The difficulties of Whitchurch point up the more general *problem of a contracting* rural economy as lower demands feeds through to the food processing plants and the individual farms. Herein is the significance of Muller's decision to build a £30m plant in Shropshire.

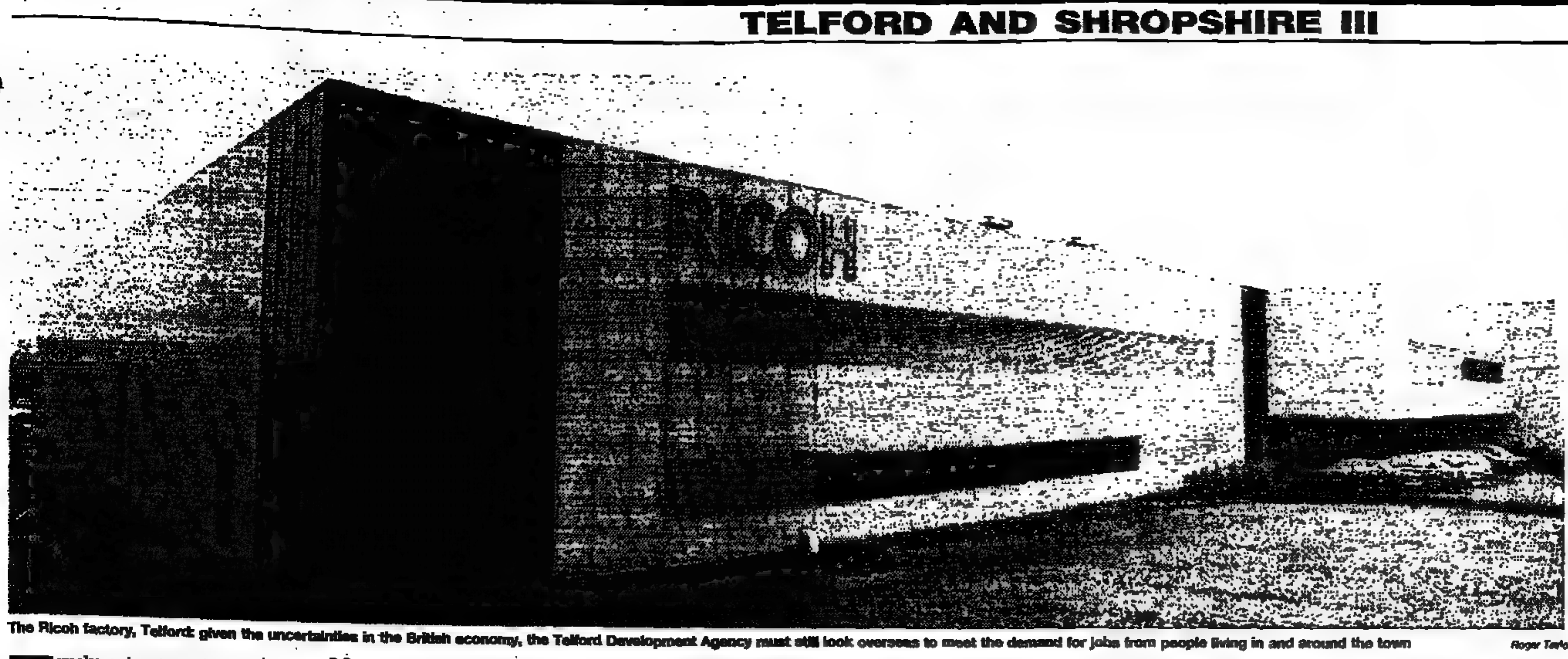
According to the county council, 70 local dairy farms are supplying milk exclusively to Muller. The plant itself is now employing 460 people. Its *presence has helped to* rebuild local business confidence which, in turn, it is hoped, will generate more employment out *of its own momentum*.

But investments on the scale of Muller are rare, although, in co-operation with the West *Midlands Development* Agency, the regional inward investment organisation, the county council is approaching *550 French companies in the* hope that some might wish to set up in Shropshire. For the most part, however, the small market *towns of the county* will have to seek salvation elsewhere from the declining rural economy.

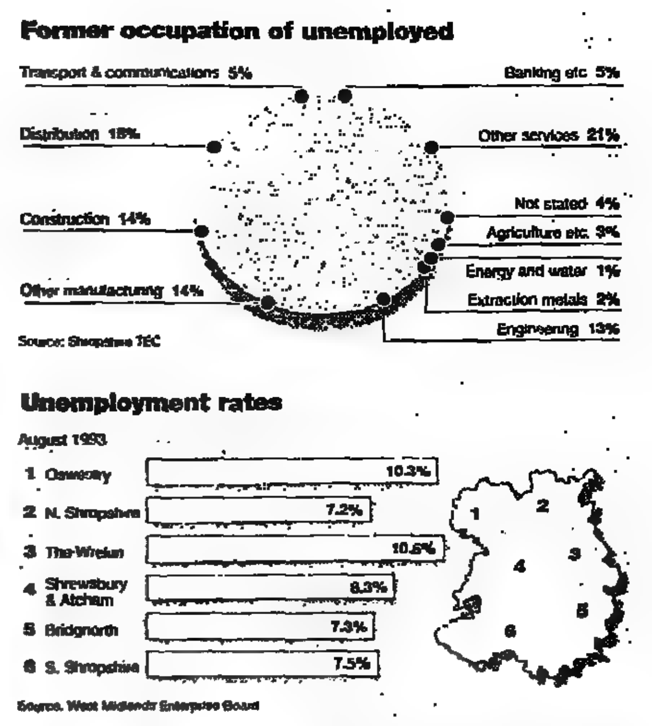
In the absence of interest from the private sector, local authorities are trying to provide the infrastructure for the development of small scale industry. Thus, the county council has completed serviced land schemes in Bishop's Castle and Craven Arms. Local authorities are co-operating with the Rural Development Commission and, where the *public sector partners* can spark an interest, with the private sector to provide industrial space in, for example, *Oswestry, Ellesmere, Cleobury* Mortimer and Clun.

In the case of Shrewsbury, property development is extensive, with the county council involved in four schemes for industrial and office use. One *site has been sold to Mercury* Telecommunications for a new fibre optic centre; three acres of an 18-acre project have been sold to Massey Ferguson, the *agricultural machinery* group for a sales and service centre.

Alongside infrastructural developments, there is a *programme of environmental* improvement in market towns such as Ludlow and Oswestry, the better to encourage tourism and to exploit the alluring county landscape. Shropshire's slogan for tourists is "Staying *Off the Beaten Track*". But the county would prefer industry to get on to it.



The Ricoh factory, Telford: given the uncertainties in the British economy, the Telford Development Agency must still look overseas to meet the demand for jobs from people living in and around the town *Roger Taylor*



Hazel Duffy looks at the continuing drive to win the foreign investment that will provide employment

Success proves a hard act to follow

Trucks *going to* and from Telford ply the M54 day in and day out, testi*mony to the hive* of activities within the town. The statistics are impressive. More than 1,000 companies have located in Telford, attracted towards the relatively spacious lay-out of the town which puts almost every site within five minutes of a motorway junction.

Easy access for supply vehicles also means that people can easily get to the town to work. The town itself has a population which is younger *than the region*, while the pool of economically active people within half an hour's travelling time is forecast to grow from 552,500 in 1991 to 587,000 by 1995, according to a study carried out by Wrekin District Council and consultants.

Telford has also benefitted from being an area which qualified for government grants for companies setting up in the area, *or existing companies* investing in expansion. That this status has now ceased can *be seen as testimony to* Telford's success.

It is now the older urban areas and towns in the south which have been hit hard by the contraction of defence and other high technology activities, which qualify.

Publicity for the town draws heavily on the appeal it has had for overseas companies. *More than 130 companies, from 18 countries, have set up in the* town, mostly in manufacturing, or distribution, but some are service companies.

The US tops the list, but the 24 Japanese companies – including *NEC, Ricoh, Epson,* Maxell – might be said to have sealed the town's reputation. Companies *from* Taiwan, one of the newer investors from Asia, are the latest to choose Telford.

The bulk of the town's employers, however, have less exotic backgrounds. Most have relocated from other parts of *the West Midlands. Two of the most important relocations,* however, have been from the public sector: the Inland Revenue, which set up its central computer activities in the town, and the Land Registry. But cherries of this size are not likely to drop again for some time.

Given the uncertainties in the British economy, the Telford Development Agency (TDA) must still look overseas to meet the demand for jobs from people living in and around the town. Japanese investment has slowed, Ger*man and other European* Union interest is not being confirmed. The US is also slow. The TDA is *targetting* Switzerland, from where eight Telford companies have already arrived.

Telford was picked for the proposed first British Sky Park. The concept is for 64 houses to be built, each with a hangar at the bottom of the garden, which would be connected to a central runway, so that executives of foreign com*panies could jump into small,* private planes and be in their head offices within a couple of *hours.*

The suitability of Sky Park to Telford is still awaiting the verdict of the UK environment secretary. Even if it is turned down, it offers an interesting angle on the diverse ownership of companies in the town.

> **The town wants more research facilities and would like to embrace higher technology**

Telford's economic architects would like to see a greater diversity of activities to serve as a bulwark against recession and the continued rationalisation of locations by companies.

The town suffered badly in the early 1980s. The current motor industry sales dip has taken its toll even in the past month, with the closure of the *GKN/Jaguar pressings activities, which is moving to take* up Ford spare capacity on Merseyside.

Telford *wants* more research facilities and would like to embrace higher technology. A science and technology park is on the cards. The new Shropshire campus of Wolverhampton University will help to emphasise that the town is increasingly capable of accommodating more than the sort of routine assembly and back office jobs that have proved vulnerable.

Unemployment in the Tel*ford Travel to Work Area* is 9.7 per cent. In the town itself, it is at least a couple of points higher. The latest West Midlands Survey* puts the figure for Shropshire slightly higher than the rest of the region, where employment prospects are improving. Telford seems to be reflecting this trend, since the rise in unemployment also lagged behind that of the West Midlands.

With a growing population, *the town has to create more jobs simply to stand still.*

But Telford is not all "new town". One part of north Telford – based on the old mining settlements of Oakengates and Hadley – displays social and economic characteristics associated with inner cities.

The isolation of its inhabitants is all the greater because the new investment has been made close to the area. But a bid to get the area designated for the government's City Challenge programme did not succeed.

> **Telford tends only to come into the picture when a company has already decided it wants to set up in Britain**

Labour-led Wrekin Council is conscious of area's needs. With the Commission for New Towns and several housing associations, £17m investment is going to meet unsatisfied *demand for cheaper housing,* both to rent and for purchase. The upgrading of facilities, such as shopping, is also planned for the districts. Small factory units are being built with the help of European regional development money.

Telford cannot afford to take *its eye off the ball for a second.* The town has to look good and work well if it is to continue to attract incomers.

Its marketing people argue that much of the relocation is "self-selecting", determined by the need of the components sector for good sites in the region, and that Telford has those sites.

Loss of assisted area status will not help. Competition with other areas, particularly Wales, is intense. Furthermore, Telford tends only to come into the picture when a company *has already decided it wants to* set up in Britain.

At the same time it must continue to meet the requirements of companies that are already established in the town. The problem with success is that it can be a hard act to follow.

* *The West Midlands Business Survey, Autumn 1993, Wolverhampton Business School in conjunction with Warwick Business School and Price Waterhouse.*

Paul Cheeseright looks at the rural economy

Incomes falling

John Evans laid off half his workforce earlier this year. The staff at his 700-acre hill country farm in south west Shropshire went from four to two. He has less livestock as the subsidy cushion for sheep and cattle becomes less comfortable. He needs fewer people to look after them.

The Evans family started on the farm as tenants three generations ago. Mr Evans is now a freeholder and he will pass the farm on to his sons who are already training to take it over. He is chairman of the Clun Forest branch of the National Farmers Union and, like his peers, he is coping with changed attitudes to agriculture.

"I was educated to maximise everything. My sons look at it from a more economic base: you can only produce what you can sell," he said.

On 800 acres of arable land, in the east of the county, Michael Dugdale, chairman of the Country Landowners Association in Shropshire, also wrestles with pressures aimed at reducing his production. He is setting land aside, as he must and, he says, "we grow some crops – grass for seed, turnips for seed where there are no subsidies". He is interested in oilseed rape for industrial use. "Things like this will have to come in the future."

Farm incomes have been falling but there has been some recent relief. "This year farming has been a little bit better than it has over the years. The harvest has been quite good. Price have been dropping lately but they were good prior to the harvest," Mr Dugdale says. Against that, corn exports have not been as attractive as they were in 1992, largely because of currency fluctuations.

If Shropshire is highly sensitive to both European Union agricultural policy and increasingly to the ebb and flow of market prices, it is because the rural economy plays a larger role in the county than in most others. The predominant land use is agriculture, accounting for 81 per cent of the area.

Shropshire Training and Enterprise Council reported that, with construction and motor vehicle engineering, agriculture and horticulture is a favourite career choice for males. This choice is unwise since statistics show that the rural workforce has been shrinking.

"Between 1981-89 it experienced the second largest fall in employment of all industries: 1,400 jobs, a decline of 18 per cent. A loss of a further 1,500 jobs is predicted by the end of the decade," reported Shropshire County Council.

For all that, the number of people employed directly in agriculture is proportionately higher than the national average. The TEC noted, on the basis of the 1991 census, that in Shropshire agriculture accounted for 5.5 per cent of employment compared with 1.7 per cent for the West Midlands region as a whole.

> **Livestock farming is the most labour intensive and is most common in the uplands, where in some districts employment is far above the county average**

This is an ageing workforce. Nearly 66 per cent of those employed are over 35 and, of them, 75 per cent have been engaged for more than six years. Mr Evans points out that generations often follow each other on the same farm: grandfather to father, father to son.

But there are variations within the county. "There is very little Grade One land, but the arable land is good, and there's good dairy land – it gets the rainfall," said Mr Dugdale. "The big area is the uplands and that's the bit there's most concern about."

Livestock farming is the most labour intensive and it is most common in the uplands, where in some districts employment is far above the county average at more than 30 per cent. Shropshire splits into three main areas, with dairy farming in the north, arable in the east, and beef and sheep in the south and west, the Marches. "Milk has come out of the hills – they have gone to beef and sheep, but on the valley bottoms, there's quite a lot of milking," says Mr Evans.

This sort of shift is not without its problems. "Rising sheep numbers on upland landscapes present ecological problems. On the Long Mynd about 18,000 sheep are grazing an area where the ecological limit is estimated to be 5,500 sheep, according to the Country Landowners Association," he says.

But farm incomes nationally – and Shropshire is no exception – have been falling steadily since the mid-1980s as costs have risen faster than output prices and the European subsidy regime has become less generous and more controlled.

Surveys of 1990-91 net farm income carried out by Manchester University and used by the county council show that the average farm income for dairying was £22,000 a year for Shropshire, slightly higher than the national average. For cropping it was £17,000, slightly lower than the national average, but for lowland livestock farming, a characteristic of the Marches, not enough was earned to cover costs.

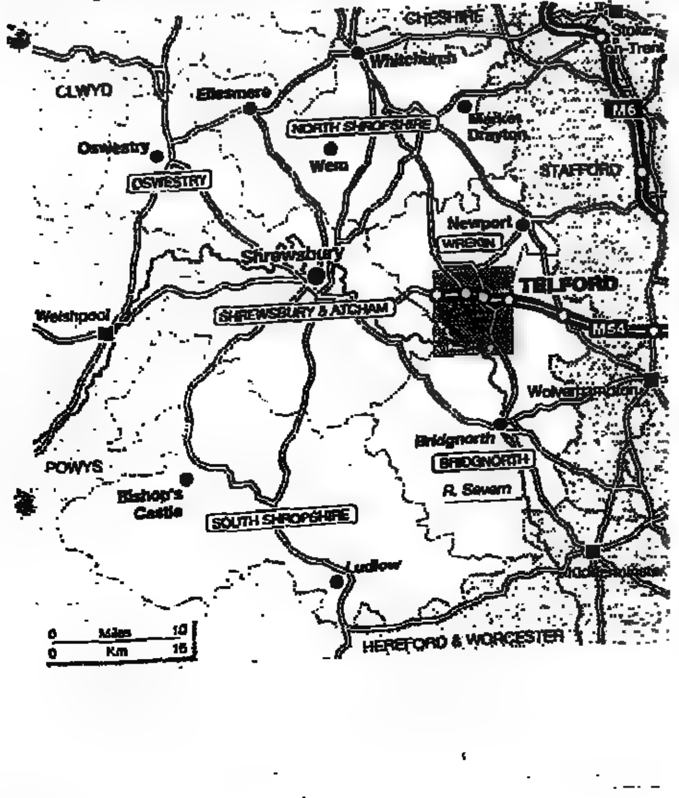
The loss of wealth in the Marches has led Shropshire County Council to work with Hereford and Worcester County Council in the preparation of an application to the European Commission asking for Objective 5b status. This would provide funds to help with the diversification of the rural economy in order to offset the changes which have been taking place in agriculture.

"Wales already has 5b status. To stop on the boundary is an entirely artificial termination of assistance, says Mr Bruce Crawcour, the Shropshire economic development officer. "The Marches have exactly the same problems ... If we get 5b status, that could bring in £20m over the next five years for Shropshire and Hereford and Worcester."

Spending would be concentrated on providing an infrastructure which the private sector might be induced to use. Private sector property development in the area has largely come to a halt.

This would be a new pot of funding for an area of 160,000 people who, apart from their dependence on Common Agricultural Policy subsidies, have never before had European assistance.

Among Shropshire farmers there is, in any case, an ambivalent attitude towards continental Europe. Mr Dugdale, noting the framing of the set aside rules and their apparent evasion by farmers in some parts of continental Europe, said: "We feel strongly that we obey the rules and the others don't." But for Mr Evans "the French are the best ministers of agriculture we've got".



The dependence on agriculture must be shifted, says **Michael Cassell**

Growing need to diversify

Shropshire may be among the most beautiful and unspoiled of all British counties but the rural characteristics which make it so special also present it with big economic challenges.

The county is among the most rural of all, with the number of people employed in agriculture – at 7 per cent – more than three times the national average. Half as many again work in agriculture-related employment and, in the south of the county, one in three people depend for their jobs on agriculture and associated sources of employment.

With agriculture in decline – the county's farming workforce fell by nearly 20 per cent during the 1980s and is expected to remain in decline – the challenge is to diversify away from economic dependence on the land and put in place an employment base which can provide long-term jobs for the local population.

Past failure to do so means that younger people have been steadily drifting away from the area in search of employment. The county council calculates that the 1980s saw a net migration of 6,500 people aged 15-24, a trend which also threatens the ability of potential employers to secure the skills base they require to expand. The workforce left behind tends to be older and increasingly immobile.

Alongside the decline in traditional sources of employment, rural services are also being cut back, with schools, village shops and transport links topping the list of casualties. In Shropshire, up to 30 per cent of all post offices, garages and primary schools have been closed.

The county council acknowledges the need to act decisively to stem the rot threatening the survival of rural communities and has, in spite of tough restrictions on resources, put in place a framework intended to construct new dimensions for Shropshire's economy.

The task is not an easy one. Shropshire may be exceptionally beautiful, but one of the reasons it has remained so is because road links remain comparatively poor and public commuter services are non-existent. Employers may have taken to Telford in the north of the county, which is now tapped into the motorway network, but places such as Ludlow to the south have found the going much tougher when it comes to attracting new employers.

Telecommunications has been identified as one of the keys to economic development in a county such as Shropshire

In the county's eyes, diversification of an agricultural economy means enacting a series of integrated initiatives on several broad fronts, including help to the existing farming community, support for new and existing businesses and the targetted promotion of specific industries.

The focus for the county's efforts to develop the rural economy is its rural economic development initiative (Redi) which was set up in 1992 to bring together public, private and voluntary organisations intent upon developing the county's rural economy. Redi's objectives are to identify economic blackspots, devise suitable initiatives and then appoint the most suitable agencies to deliver a response.

South Shropshire district, for example, has been designated part of the Marches countryside employment programme, comprising a three-year pilot scheme which aims to stimulate economic diversification through a partnership of local organisations.

Several initiatives are in hand to improve the efficiency of remaining farms and to offer advice on training and employment opportunities beyond agriculture. There are moves to help farmers add value to their products to help them to survive, as well as to develop new products.

Given the problems emanating from the county's comparative remoteness, other policies are in place to help overcome the difficulties of physical separation of the producer and supplier from the customer.

One of the new "business link" centres established by the Department of Trade and Industry is to be located in Telford but, because of the distances between north and south, local partners in the county's business support network are to establish a satellite business development centre in Craven Arms, the small market town which sits astride the A49 close to Shropshire's southern boundary.

The problem of access to advice and information, training and business support services across such a widespread geographical region has also encouraged the county's business development unit to organise a series of rural business surgeries throughout the county.

This year, the unit changed its business grant scheme to give priority to applications from the rural south and west of the county and to those companies generating additional employment. Shropshire training and enterprise council is now also providing business start-up and development courses in rural locations.

Modern telecommunications systems have already been identified as one of the keys to economic development and diversification in a county such as Shropshire. In a taste of what may be to come, the small town of Kington, across Shropshire's southern border in Hereford and Worcester, was this year selected for a national pilot scheme to study the effect of state-of-the-art communications and computer technology on the economic and social fabric of small towns and villages.

The intention is to protect existing businesses and to attract new ones, partially by luring back those people for whom high-tech business and rural locations have always been seen as incompatible. The results of a 12-month study will be closely scrutinised across the border in Shropshire.

Perhaps the most obvious candidate for development as Shropshire tries to escape its agricultural base is tourism, which already accounts for an estimated 10 per cent of employment and which accounts for a £20m annual spend on the part of visitors.

The county last year launched its sustainable tourism project, intended to achieve a sensible balance between the benefits of tourism development and the need to conserve and protect Shropshire's natural beauty. Woe betide county hall if it gets the balance wrong.

Ironbridge: the north of the county was the cradle of an industrial revolution still celebrated by Blists Hill living community museum Roger Taylor

Michael Cassell explains his personal passion for the county

A piece of heaven on earth

"Shropshire is possibly one of the most bland, boring and monotonous of all British counties. Holidaymakers should give it a wide berth."

This advice might come from any Salopian or fan of Shropshire who regards the county as a little bit of heaven on earth and who wants to keep it that way. That means scaring off visitors whose tramping feet grind Offa's Dyke to dust or whose flashy, off-road jeeps turn ancient bridleways into battlegrounds.

But rural life is not that simple. Shropshire might not like tourists but it badly needs them. They provide an important source of revenue for a county trying to combat the decline in traditional industries and, more specifically, for growing numbers of families who supplement their income from tourism. One in six farms in Shropshire operate at least one enterprise for tourists and the number is growing.

It is hardly surprising. Shropshire is as beautiful and under-exploited as it is sparsely populated, a continuing conundrum given its immediate proximity to the industrial West Midlands. It is as though a million Brummies, en route for the beaches of the Welsh coast, have never had time to stop as they rush through a county too close to home to bother with.

Shropshire, in spite of its size, remains one of those places that people find hard to put on the map. It usually ends up somewhere east of Manchester or north of Leeds. Those who find it invariably fall in love with it.

Huge tracts of the county have been designated as areas of outstanding natural beauty. There is rugged wilderness and rich farmland, rolling moorland and wooded slopes; it is part-English and part-Welsh and littered with the evidence of a troubled history imposed upon by its border with Wales.

Countless hills are topped with ancient, earthwork fortresses; picturesque Norman fortresses and churches are commonplace.

Rich in minerals, the north of the county was the cradle of an industrial revolution which is still remembered and celebrated at Ironbridge Gorge, where Blists Hill living community museum recreates the past in the shadow of Abraham Darby's famous iron bridge.

Until comparatively recently, visitors to Shropshire were left largely to their own devices, given the restricted support and information services available. It was as though the county was deliberately lagging behind, uninterested in encouraging interlopers from a less welcome, new age.

Hotels were basic, restaurants were mostly caught in a "meat and two veg" time-warp and shopping was unexciting. The opening of a delicatessen in one market town was viewed rather like the arrival of a space ship.

The county still cannot claim to offer the broad range of choice available in better developed parts of the country but it has made great strides and can now offer high standards of hotel accommodation alongside the more usual, and ever-popular, farmhouse style holiday base.

Despite the continuing wish to preserve the county's timelessness, there has been a marked sea-change in attitudes. Tourism has finally been recognised as an important element in the county's economy and the proliferation of tourist information centres alone offers evidence of a more serious, better co-ordinated approach to the issue.

In south Shropshire, the county council has launched a pilot scheme to identify the economic impact of tourism on the area and detailing a strategy and action programme for implementation. If it is successful, similar projects will be extended to other, rural parts of the county.

The tourist industry has finally been recognised as an important element in the county's economy

The county is easily divided into two parts. To the north – above a line drawn by the A5 – is the best known area, with its tree-fringed meres, pleasantly rolling countryside and sandstone hills.

Ask anyone to mention a Shropshire town and the chances are they will say Telford, possibly Shrewsbury and occasionally Oswestry.

Telford may be Shropshire's commercial "hot spot", with its influx of high-tech Japanese companies and expanding housing estates, but tourists can easily afford to miss most of it.

They might, instead, try Shrewsbury, its medieval buildings struggling to hold their own against heavy traffic, or Bridgenorth with its remarkable panoramic views out across the River Severn. Oswestry, on the county's north-west borders, offers a pleasant and convenient base from which to explore a little-known corner of England.

But it is to the south of Shropshire where the best treasures lie, tucked away in the remote, rolling hills around Clun, stretched out along the Corvedale and hiding down the half-timbered lanes of Ludlow, surely one of the most beautiful, unspoiled towns in Britain.

The tourist can easily spend a week or two exploring the lanes and villages of an area which still battle to remain, as A.E. Housman so famously observed, among the "quietest places under the sun".

Ludlow itself, perched above the River Teme retains an elegant streetscape largely preserved over centuries. The market in castle square provides a focal point in the shadow of the castle which was briefly home for Edward IV's two ill-fated sons.

Nearby are endless walks across Forestry Commission land in Mortimer forest and there is plentiful game and coarse fishing.

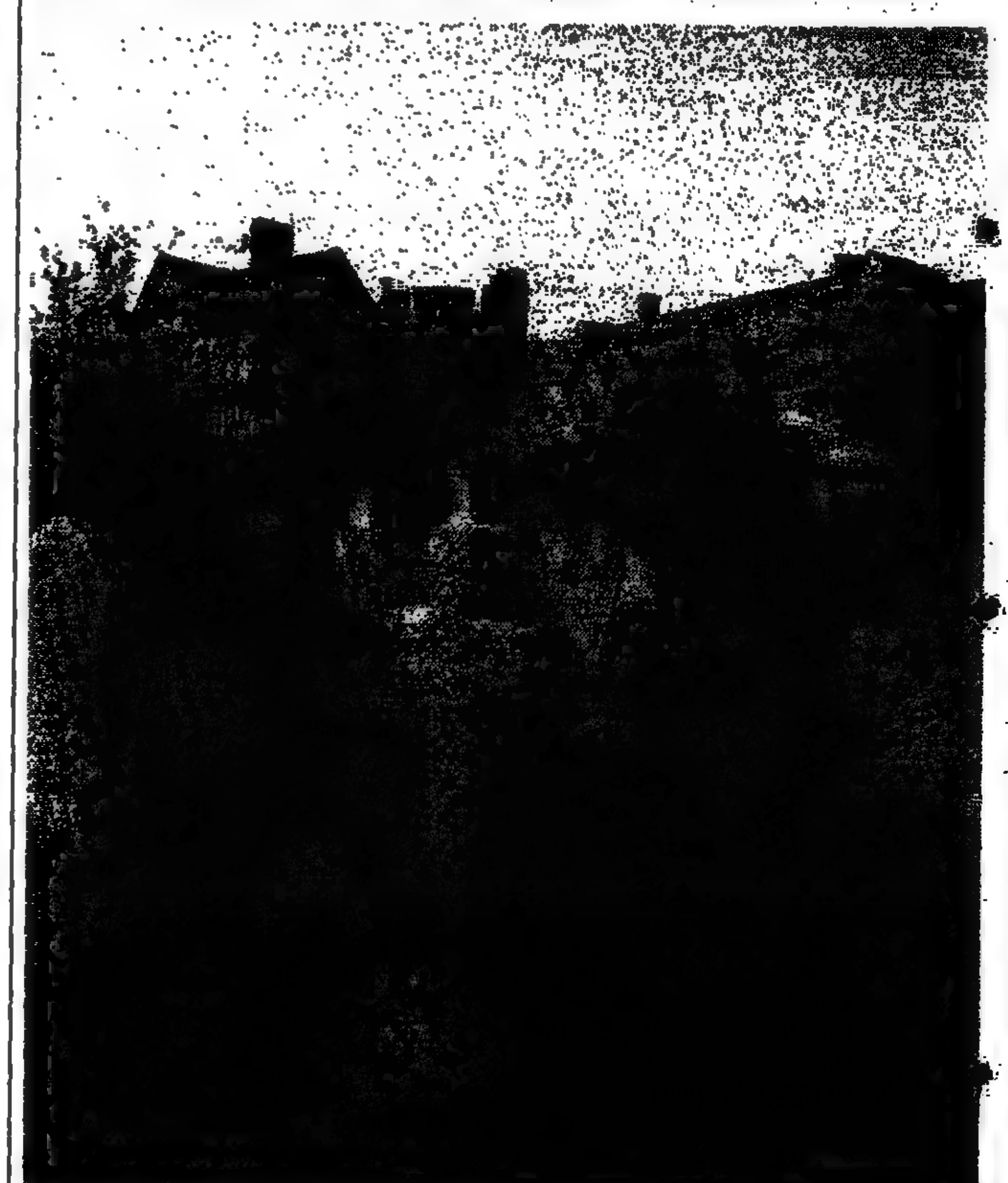
Drive north on the A49 past Stokesay Castle – an exquisite 13th century, fortified manor house open to visitors – to Church Stretton, dubbed "little Switzerland" by the Victorians who established the town as a spa.

At the heart of the Shropshire hills, the town sits under the Long Mynd, 5,000 acres of heather-covered moors which rise like a hump-backed whale behind it. A multi-storey antique market serves as a useful refuge on a wet day, of which there are plenty.

To the north-west of Ludlow find Clun, the delightful stone-built village at the head of the stunning valley which bears its name and which has a thousand-year-old packhorse bridge.

A little further is Bishop's Castle, immortalised as "Mallards Keep" by novelist Mary Webb. The town has seen more robust times but its High Street still stretches uphill dramatically to the Three Tuns pub which has its own brewery.

Then there is Bury Ditches, the iron-age fort which stands over Clunton and offers anyone with a bit of puff and a picnic basket one of the most spectacular dining rooms in Britain. Shropshire is crammed full of secrets: let's hope the tourists never find them.



Stokesay Castle, a 13th century, fortified manor house

THE WEEK AHEAD

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Stanhope Properties, Lansdowne House, Berkeley Square, W., 10.00
BOARD MEETINGS:
Finals:
Chemex
Trafalgar House
Unidare
Interims:
Berkeley Grp.
Braemay
Greene King
Hamlet
Norbain
Melville Street Invs.
Richards
Southern Electric

■ TOMORROW

COMPANY MEETINGS:
Estates & Agency Hldgs., Institute of Directors, 116, Pall Mall, S.W., 10.30
Keystone Inv., 33, King William Street, E.C., 10.30
Scottish Metropolitan Property, Glasgow Royal Concert Hall, Glasgow, 11.30
Scottish National Tst., Charles Oakley House, 125, West Regent Street, Glasgow, 12.00
Scottish Value Tst., Caledonian Hotel, Edinburgh, 12.00

BOARD MEETINGS:
Finals:
Aukett Assoc.
David Lloyd Leisure
Sheriff
Shoprite
Southern Radio
Vaux
Whessoe
Interims:
Amberley
Bogod
Esrari
First Technology
Halma
Melville Street Inv.
Siam Selective Growth
Southern Water
South Western Elect.

■ WEDNESDAY DECEMBER 15

COMPANY MEETINGS:
Bailey (C.H.), Alexandra Docks, Newport, Gwent, 11.30
Finsbury Growth Tst., Great Eastern Hotel, Liverpool Street, E.C., 12.00
Fleming Japanese Inv. Tst., 25, Copthall Avenue, E.C., 12.00
Glasgow Income Tst., Hunterian Art Gallery, University of Glasgow, Glasgow, 7.00
Low (Wm.), Blard Avenue, Dundee, 12.00
Majedie Invs., Watermen & Lightermens Hall, 16, St. Mary-at-Hill, E.C., 12.15
Town Centre Securities, Town Centre House, Merrion Centre, Leeds, 2.30
BOARD MEETINGS:
Finals:
Acatos & Hutcheson
Alvis
Baggeridge Brick
Chemring
Daily Mail & General
Electra Inv.
Greencore
Group Development Capital
Haemocell
Hunters Armley Grp.
Kunick
M & G Grp.
Polar
Interims:
Bristol Water
Ensor
Northern Electric
Plysu

■ THURSDAY DECEMBER 16

COMPANY MEETINGS:
Black & Edgington, The Registry, Royal Mint Court, E.C., 10.00
British Assets Tst., 1, Charlotte Square, Edinburgh, 12.30
Govett Strategic Inv. Tst., Shackleton House, 4, Battle Bridge Lane, S.E., 12.00
Jupiter European Inv. Tst., Knightsbridge House, 197, Knightsbridge, S.W., 11.30
Overseas Inv. Tst., 23, Great Winchester Street, E.C., 12.00
Smart (J)(Contractors), 28, Cramond Road South, Edinburgh, 12.00
VTR, 66, Wilson Street, E.C., 12.00
Wellcome, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 11.00
BOARD MEETINGS:
Finals:
Albion
Archer (A.J)
Barcom
Brunner Inv. Tst.
Chiltern Radio
Fairline Boats
Kleinwort Charter Inv.
Phonelink
Trio Hldgs.
Interims:
Bell (AH)
London Merchant Securities
MS Int.
Stewart & Wight
Sutcliffe Speakman
Victoria Carpets
Westport
Yorkshire Elect.

■ FRIDAY

COMPANY MEETINGS:
Benchmark Grp., Institute of Chartered Accountants, Moorgate Place, E.C., 12.00
Lowland Inv., 3, Finsbury Avenue, E.C., 2.30
Nesco Invs., Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Stratagem Grp., Exchange House, Primrose Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Burndene Invs.
Interims:
Abtrust Pref. Inc. Inv. Tst.
Asda
Manweb
Reliance Security
Tinsley (Eliza)
Unit Grp.
United Inds.
Waverley Mining Finance
Welsh Ind. Inv. Tst.

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Bowthorpe 1.88p
British Dredging 2.8p
Chase Manhattan Fltg. Rate Sb. Nts. '09 $132.71
Coles Myer A$0.085
Denmark 3½% Int. Debt DKr3.50
DKB Asia Fltg/Fxd. Gtd. Nts. Dec.'01 $2087.0
Eksportfinans 7⅞% Nts. '96 $393.75
FR Grp. 2.46p
Hambros 4.5p
Do. N/Vtg. 2.1p
Harrisons & Crosfield 3.8p
Hongkong & Shanghai Bk. Prim. Cap. Und. FRN $63.19
Kitty Little 0.5p
Kleinwort Dev. Fd. 7.75p
Kubota FRN 1997 Y75201.0
Lloyds Bk. Prim. Cap. Und. FRN $186.82
NFC Var. Vtg. 1.6p
Ragby Gtd. FRN Dec.'97 $13682.64
Reed Publishing 9% Gtd. Bd. '94 $900.0
Royal Ins. 7¼% Cv. Sb. Bd. '07 £181.25
Sapporo Brew. FRN '97 Y726736.0
Smith & Nephew 1.89p
Temple Court Mort. A2 Multi-Class Mtg. Bckd. FRN '31 £161.74
Time Warner $0.08
Woolwich Bldg. Scty. FRN '94 £149.59

■ TOMORROW

Bankamerica $0.35
Conversion 9½% '02 £4.75
Limited Inc $0.09
Marubeni Int. Fin. 7.3% Bd. '94 Y730000.0
Do. Stppd. Coupon Bd. '94 Y800000.0
Pressac Hldgs. 1.82p
Takugin Int. Gtd. Fltg/Fxd. Rate Nts. '02 $2065.10
Tenneco $0.40

■ WEDNESDAY DECEMBER 15

AECI 5.5% Cm. Pf. R0.055
Abbey Natl.Treas 10⅝% Bd. '98 £531.25
Do. 11% Bd. '99 £110.0
Albert Fisher 5⅞% Gtd. Rd. Cv. Pf. '04 2.9375p
Allied Leisure 2p
Am. Barrick Res. $0.04
Atlantic Richfield $1.375
Bear Stearns FRN Sept.'94 $85.31
Blenheim 6.4% Cv. Pf. 2.998356p
Bradford & Bingley Bldg. Scty. FRN '95 £151.54
British Gas 6.4p
Brunswick $0.11
CRT 2.15p
CSX $0.44
Cadbury Schweppes 8% Cv. Bd. 2000 $400.0
Caisse Natl. des Auto. 16% Gtd. Ln. '06 £400.0
Can. & Foreign Secs. C$3.20
Country Casuals 1.41p
Dana $0.40
Dover Corpn $0.23
FPL $0.62
Finsbury Growth Tst. 2p
Gerrard & National 6p
Gracechurch Personal Ln Fin. Class A FRN '98 £708.32
Do. Mezzanine FRN '98 £784.90
Halifax Bldg. Scty. 8% Nts. '93 Ecu80.0
Hewden Stuart 0.9p
Investors Cap. 5¼% Cm. Pf. £1.8375
Kajima Y4.50
Louisiana Land & Expln. $0.25
Midland Bk Non-Cum Dollar A1 $0.30175
Do. A2 $0.075438
Do. Und. Fltg. Rate Prim. Cap. Nts. $188.18
Murray Split Cap. Tst. 2.65p
Do. Units 26.5p
Pacer Systems $0.03
Pandick Press Int. Fins. 7% Cv. Sb. Bd. '98 $35.0
Pennzoil $0.75
Royal Bk of Can. Fltg. Rate Bd. '85 $85.31
Royal Bk of Scot.. Fltg. Rate Prim. Cap. Nts. $190.82
St. Lawrence Rail. 4% Stlg 1st Mtg. Bd. £1.00
Sapporo Brew. FRN '99 Y18364.0
TRW $0.47
Tanjong M$0.03
Thomson $0.113
3i Int. 7⅞% Gtd. Nts. '93 Ecu78.75
Trinova $0.17
Wagon Indl. Cv. Ptg. Pf. 3.625p
Wells Fargo Fltg. Rate Sb. Nts. '94 $132.71

■ THURSDAY DECEMBER 16

Amber Day 0.25p
Assoc. Brit. Ports 10⅞% Bd. '15 £1087.50
Chamberlin & Hill 2p
Essex Water A 39.1p
Do. N/Vtg. B 39.1p
Finsbury Tst. 1.2p
Do. A N/Vtg. 1.2p
Hemlo Gold Mines C$0.20
Investors Capital Tst. 1.3p
Johnston Grp. 1p
Keystone Inv. 10.5p
Leeds Permanent Bldg. Scty. FRN '98 £152.71
Lloyds Bk Ser.C Var. Rate Sb. Nts. '98 £163.92
Pfizer $0.42
Pilot Inv. Tst. 0.5p
Prowting 1.7p
Santander Fin. Sb. Und. Var. Rate Nts. $2488.28
Scotland Int. Fin. 14⅛% Gtd. Fxd/Fltg. Rate Nts. '98 £26.89
Smart (J) 6.2p
Sotheby's Hldgs. Class A Lim/Vtg. $0.06
Southeast Bank. Fltg. Rate Sb. Nts. '96 $266.88
State Bk. of NSW 7% Nts. '93 Y7000000.0
Suffolk Water 23.3p

■ FRIDAY DECEMBER 17

Anglo American Gold R6.25
Bank of Scotland 1.87p
Bracken Mines R0.30
Chester Waterworks £0.85
Do. Irrd. Pf. £0.85
East Rand Gold R0.45
Fleming Japanese Inv. Tst. 0.45p
Free State Cons. Gold R1.90
Hankyu Corp FRN '96 Y75912.0
Hunting 4p
Johnson & Firth 11% Un. Ln. 93/98 £3.224658
Kinross Mines R1.80
Land Securities 6.6p
Leslie Gold Mines R0.35
Mercury Asset Mngmt 4p
Molyneux Ests. 1p
Nat West Bank 11½% Und. Sb. Nts. £115.00
Norex 2p
Overseas Inv. Tst. 2.3p
Senior Eng. 9¾% Un. Ln. 94/99 £4.6875
Sime Darby M$0.165
Unisel Gold Mines R0.15
Warburg (SG) 6p
Welsh Indl. Inv. Tst. 4p
Wensum 0.625p
Wetherspoon (JD) 3.6p
Winkelhaak Mines R1.30
Young & Co's Brewery A 7.25p
Do. N/Vtg. 7.25p

■ SATURDAY DECEMBER 18

Gen. Motors Acceptance Can. 9½% Nts. Dec.'93 C$95.0
Gold Int. Fin. Tranche A Fxd/Fltg. Rate Sec. Nts.'02 Y4125000.0

LEGAL NOTICES

OFFICIAL NOTICE

Please be advised that the two LME - ALCAN Brand Aluminium Sows warrants, stored in warehouse Toledo Metals Terminals Inc., with the following details:
Warrant No. 10333 - 38 SOWS - 25,352 Kgs.
Warrant No. 11141 - 36 SOWS - 24,590 Kgs.
previously having been reported as having been lost, have been replaced and should now be considered null and void.
C. SHAW LOVELL AND SONS Ltd.,
PLANTATION HOUSE,
31/5 FENCHURCH STREET,
LONDON EC3M 3DX

ROXBURGHE BANK LIMITED
(IN ADMINISTRATION)

A Court Meeting of the creditors of Roxburghe Bank Limited (In Administration) ("Roxburghe") has been convened by Order of the Court to consider and, if thought fit, approve, the proposed Scheme of Arrangement between Roxburghe and its Scheme Creditors under Section 425 of the Companies Act 1985. A copy of the Notice of the Court Meeting is set out below.

No. 0010483 of 1993

In the High Court of Justice
Chancery Division
Mr Registrar Buckley

Notice of Meeting
IN THE MATTER OF
ROXBURGHE BANK LIMITED
(In Administration)
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an Order dated 7th December, 1993 made in the above matters, the Court has directed a Meeting to be convened of the Scheme Creditors of the Company (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the above named Roxburghe Bank Limited (in administration) (hereinafter called the "Company") and the Scheme Creditors of the Company; and that such Meeting will be held at No. 1 London Bridge, London SE1 9QL on 19th January, 1994 commencing at 11 a.m. at which place and time all such Scheme Creditors of the Company are requested to attend.

A copy of the said Scheme of Arrangement and of the Explanatory Statement required to be furnished pursuant to section 426 of the Companies Act 1985 are contained in the document of which this Notice forms part and in the Scheme of Arrangement booklet (defined as "the Scheme").

The Scheme Creditors may vote in person at the said Meeting or they may appoint another person, whether a Scheme Creditor of the Company or not, as their proxy to attend and vote in their place.

To be valid Forms of Proxy must be lodged with the Administrators of the Company, Price Waterhouse (ref. AVL), No. 1 London Bridge, London SE1 9QL, England, before the time fixed for the Meeting or, if not so lodged, may be submitted to the Chairman of the Meeting before the commencement of the said Meeting.

By the said Order, the Court has appointed Anthony Victor Lomas or, failing him, Colin Graham Bird, to act as Chairman of the said Meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.

DATED 8 December, 1993

Travers Smith Braithwaite
10 Snow Hill, London EC1A 2AL
Solicitors for the above-named Company acting by its Joint Administrators

The Joint Administrators have issued a statement to creditors explaining the effect of the Scheme of Arrangement; creditors entitled to attend and vote at the Meeting may obtain copies of this statement, free of charge, by contacting the Joint Administrators at the following address, and giving details of the address to which the document should be sent.

The Joint Administrators
Roxburghe Bank Limited (In Administration)
c/o Price Waterhouse (ref. AVL)
No. 1 London Bridge, London SE1 9QL
UNITED KINGDOM
Tel: +71 939 8989 Fax: +71 939 4176

WEBER INSOLVENCY -
Capri No. 878/89 on 27th January 1994 at 12.00 am, the Law Court of Naples Sells Complex called Weber Hotel, 118, Marina Piccola St., Capri, in front of Judge Perpetua. The complex is on 3910 Sq.m. of grounds and buildings. It consists of 53 rooms and one suite of 60 Sq.m. provided with all accessories and in working order. A swimming-pool - already designed - might also be realised. All is better described and specified in the technical consultancy report deposited at the Chancery. Opening price Lit. 21,300,000,000 Deposit 65%. Information Chancery or Official Receiver lawyer Massimo Di Lauro. Telephone Numbers 081/456420-295520 Fax 081/440865

THE MONDAY

People page

Modernising a monopoly

Cedric Brown tells **Lucy Kellaway** that British Gas is his job and his hobby horse

■ PERSONAL FILE

Born: Portsmouth 1935

Educated: Sheffield, Rotherham and Derby Colleges of Technology.

Academic qualifications: 100-yards swimming proficiency certificate

Career:

1953: Joins East Midlands Gas Board as pupil gas distribution engineer

1975: Director of Engineering, East Midlands Gas

1980: Director of Morecambe Bay project

1992: Chief executive of British Gas.

Joanna Lumley, the leggy actress in British Gas commercials, loves being in control. So does Cedric Brown, the company's chief executive. *Yet control is just what he lacks:* the company's future rests squarely in Michael Heseltine's hands. Any day now the trade secretary will decide *whether British Gas should* continue to exist in its monolithic form, and whether it deserves its monopoly of the domestic gas market.

Brown is *getting impatient;* he wants a quick decision so that he can get back to running the company in earnest. The verdict is certain to force British Gas to become more competitive: Brown will be faced with the monumental task of turning a defensive gas monopoly into a modern, international energy group.

He might seem an odd person for the job. Brown, who joined the company at 18, is steeped in the old utility culture and has little experience of the outside world. British Gas has been his life, and he makes no attempt to pretend otherwise. "I'm not one for chit chat at cocktail parties. But if I can get the conversation on to a subject like British Gas, then I'm OK. It's rather a hobby horse of mine."

The hundreds of people with whom he must have discussed gas at parties over the years will have found him straightforward, modest and a good listener. But this pleasant blue-eyed man is not the sort of person one would expect to find leading the sixth largest company in Britain, as it faces its biggest *challenge yet.*

So how did he get to the top? Some argue Brown was the best of an indifferent bunch. Sir Denis Rooke, the abrasive *chairman during the 1970s and* 1980s, did not encourage creativity and initiative among his underlings. "Rooke was an admiral who wouldn't have any *captains. When he went there were* only sublieutenants left to run the ship," says one well known energy consultant.

Brown's own account of his rise is so modest that if he believes it himself he must occasionally wonder what he is doing in the executive suite at the top *of Rivermill House. "It was a mixture of* things.. partly luck, being in the right place at the right time." He admits to drive and to hard work: he leaves his *Buckinghamshire home at* 7 am each morning and four nights a week does not get back until after 11 p.m.

He says his rise all started with the death of his disciplinarian teacher father when he was 16. "If my father had been alive he might have said I ought to take a degree."

Instead, the young Cedric joined British Gas as a trainee engineer and has never looked back. "I've had a fantastic time, and I've ended up doing a job like this."

Yet Brown's record so far challenges those who think he is not quite big enough for the job. He has done more in his 16 months as chief executive than Bob Evans, the outgoing chairman, did in his three years of combining both roles. On the eve of taking the job Brown took the unusual step of referring British Gas to the MMC, in a final attempt to end the war of attrition with its regulator Ofgas.

To the outside world this marked a strategic shift from the utility's old defensive way of responding to Ofgas' increasingly frequent and damaging attacks. Was it a carefully stage-managed initiative by the new chief executive?

This would have been a golden opportunity to blow his own trumpet; he missed it. "The timing was one of those coincidences," he says bashfully.

Brown denies that his public service *background is hindering his efforts to* "create a dynamic entrepreneurial style" at British Gas. He says he has got himself "mentally and attitudinally *over a hurdle". He now has to do the* same for the company's other 70,000 employees. "I want people to have the confidence to believe that they can make things happen. Forget looking back." He is bringing in senior people from outside, and appears to be gently tackling the remaining dinosaurs within the company. "I wouldn't call them dinosaurs," he says, as ever anxious not to offend. "It is just that some people in a company like ours may be concerned about change."

In everything he does, Brown is resolutely optimistic. Ask him about the good and the bad aspects of his job and he will list the good things twice. "I never have nightmares," he says.

He seems to enjoy things that would keep other chief executives awake at night. He even saw something good in telling the company's employees that 20,000 could lose their jobs. "When we made the announcement we found a lot of anger and concern in the regions. I can understand that. I decided I must get out and talk to them." So he spent a month on the road holding mass meetings. "The only thing to do was to tell it straight. The response from talking to people was absolutely fantastic. I enjoyed it."

Despite his popular touch, Brown has not managed to get to the top without *making some enemies along the way.* "The goody-two-shoes bit is a front," says one ex-British Gas manager who is now a senior executive in the oil industry. *"He is extremely ruthless,* and always acts in his own self interest. I hardly ever knew him to contribute a new idea."

While many outsiders agree Brown is more of a doer than a thinker, they put such violent attacks on his personality down to professional jealousy. "With Brown, what you see is what you get," says one.

If nothing else Cedric Brown is a stayer. He has been with the same company all his adult life; he has been with the same woman even longer. "She is fantastically supportive," he says, "and she is very interested in British Gas." That is just as well. Joan Brown has no career of her own – she although has raised their four children – and has been keen to help him in his. It was she, says Brown, who urged him to take the job as manager of the Morcambe Bay gas project in the 1980s, an assignment that made his career. "If you don't do it, someone else will," she had warned presciently.

From January, Brown will be taking a smaller role in presenting British Gas to the outside world. Ultra-experienced Richard Giordano, ex-chairman of BOC, is to take over from lacklustre Bob Evans as chairman, giving British Gas a taste of the outside world. Does Brown resent it? Was it a job he wanted for himself? "British Gas has been too *in-bred," he says. "We needed someone* with a reputation outside. It is all part of British Gas maturing."

In any case, he reflects, if he were *chairman it would mean finding* another chief executive. "But I like being chief executive too much myself," he says.

Personae

Deutsche Bank: keeping a watching brief

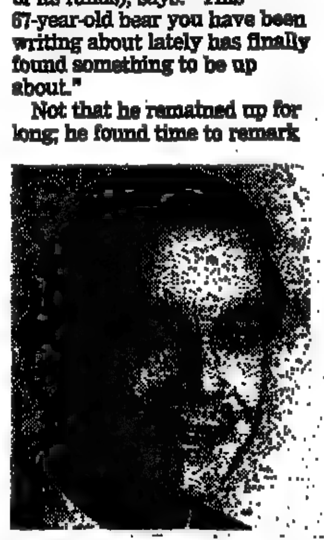
Looking out from Metallgesellschaft's headquarters on Reuterweg in the centre of Frankfurt, chief executive Heinz Schimmelbusch has a clear view of the steel-blue towers of the Deutsche Bank, writes **David Waller.** He has a habit *of pointing up at its* skyscrapers and explaining to lunch-guests that up there somewhere his lords and *masters are keeping an* eye on him.

In fact, Schimmelbusch is being watched over by Deutsche Bank – a major shareholder in Metallgesellschaft, Germany's 20th biggest company – but not literally.

It was in the office of Ronaldo Schmitz, a management board director at the bank and chairman of the Metallgesellschaft supervisory board, that Schimmelbusch, a ruddy-faced Austrian nicknamed "the Rasputin of Reuterweg", together with his finance director and another senior director, met Schmitz at 8 am on December 3. Cap-in-hand, Schimmelbusch, Germany's 1991 Manager of the Year, asked for new lines of credit to cover a potential liquidity crisis arising from cash payouts linked to futures contracts taken out in the US.

Details of the talks leaked and on the following Monday Metallgesellschaft's share price fell by 12 per cent.Metallgesellschaft and Deutsche both insist that the liquidity problems are temporary and technical in nature – but it seems that contacts between Schmitz and Schimmelbusch are set to become more frequent in the weeks ahead as the bankers are kept abreast of developments.

On the face of it, the two men have a great deal in common: they are both young by the standards of top German businessmen (Schmitz is 55, Schimmelbusch, 49) and both have an extremely international outlook, speaking *fluent English with a north* American twang. They are both outsiders in Frankfurt: Schimmelbusch because he *is Austrian, Schmitz, less* because he was born in Brazil than because he joined the board of Deutsche Bank direct from industry. This was in 1990 after 23 years with BASF.



Temperamentally, however, they are worlds apart; though both are highly intelligent, Schmitz is an ice-cold and calculating finance man who is head of the bank's corporate finance activities, whereas Schimmelbusch is an impulsive and impassioned talker, direct to the point of being uncouth.

Dreyfus' bear turns bullish

Howard Stein, who over the past quarter of a century has built Dreyfus into one of the *US's biggest mutual fund* groups, is nothing if not consistent, writes **Richard Waters.**

The perennially cautious Stein (below) made his first big impact by pioneering money-market funds during the 1970s, at a time of soaring inflation and interest rates. Even today, during an equity and bond market boom, Dreyfus (and Stein) remain temperamentally wedded to more cautious money-market funds, though the firm has made belated efforts recently to jump on to the equity market bandwagon.

So it was with a dash of humour that the lugubrious Stein unveiled last week's plan to sell Dreyfus to Mellon Bank in an all-stock deal valued at $1.7bn. Stein, a tall, patrician figure renowned for his hands-on management of Dreyfus (he still manages some of its funds), says: "This 67-year-old bear you have been writing about lately has finally found something to be up about."

Not that he remained up for long; he found time to remark on the "potential dangers inherent in an exploding mutual fund and financial services world", *and left it to* Mellon Bank's Frank Cahouet to talk about the benefits.

For Stein, who also pioneered the development of tax-free municipal bond funds in the US, the deal is a mixed culmination to a remarkable career. Had it not missed out on the mutual fund boom of the past two years, Dreyfus (with assets under management of $80bn) is unlikely to have countenanced such a takeover. The changes will inevitably bring an end to the family-company style Stein has always adhered to.

Zabriskie's point of departure

The question of who is going to emerge at the head of Merck when the charismatic Roy Vagelos leaves the world's largest drugs group a year from now gets ever more intriguing, writes **Richard Waters.** Two potential front-runners have now left to run other US drug companies: president Richard Markham to Marion Merrell Dow and, last week, head of manufacturing John Zabriskie to Upjohn.

The shake-up following Zabriskie's departure provides few clues. True, head of research Edward Scolnick has also been given ultimate responsibility for manufacturing, apparently putting him in the strongest position. But two others have also seen their roles enhanced in an apparent attempt to keep the field wide open.

Judy Lewent, the widely-respected chief financial officer, has also been given responsibility for public affairs, while head of strategic planning Francis Spiegel will oversee Merck's Kelco division. All part of a plan to give managers a more diversified background, says Vagelos.

And then there is Martin Wygod, head of Merck subsidiary Medco, whose marketing skills and proven *ability to anticipate big* changes in the drugs market have drawn praise from Vagelos. Asked recently what *skills his successor would* need, Vagelos replied: "vision". On that test, Wygod wins hands down.

MANAGEMENT

TIPS FROM THE TOP

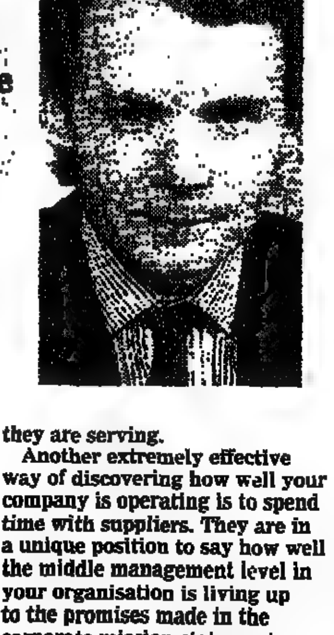
How to stay in touch with the real world

Liam Strong, chief executive of Sears, describes his methods for sifting and exploiting information

Information is the life-blood of any business, the oxygen that feeds all major decisions.

As technology has increased the speed with which news is made available throughout the world, senior executives need to keep abreast of an ever wider range of subjects. The information demands of any job can be daunting, but it is a salutary fact that any information you require, no matter how elusive, is undoubtedly available if you know how to find it.

Suppliers are in a unique position to say how well middle management is living up to the promises made in the corporate mission statement



I spend about 10 minutes skimming the daily papers but tend to read all the Sunday papers. The UK press generally has very good coverage of *international events* and I do not usually take international papers. The exception to this is the Sunday edition of The New York *Times which I get occasionally* because it has probably the best book review section of any newspaper.

New York is still a city where reading the latest books before your friends is almost a competitive sport. I flick through *fashion magazines to keep up to* date with trends and advertising. I make a special point of looking at magazines for younger readers because trends move much faster in this sector.

So far as business reading is concerned, I am now faithful to a small number of publications. Fortune, because it has good, well written articles and is beautifully designed. The McKinsey Quarterly, because it is a good indicator of current trends. And the Harvard Business Review, whose abstracts I flick through with a view to sending copies of articles around the organisation.

I try to maintain an *international network of people* who see my markets from a particular vantage point: international store designers, *fashion journalists, retail* experts from leading business schools, analysts in major market research and brokerage houses and a few venture capitalists on the West *Coast and in East Asia.*

It is wise to assume that all your competitors have access to the same data as you, so any *competitive edge will be* determined by how fast you can get the available facts and how effectively you use them.

There is a danger of assimilating too much undifferentiated information on too many different subjects. I try to ensure that our company has a working hypothesis on developments that are likely to have an impact on our markets. So our information gathering is therefore focused on revising and evolving our current view of the future.

An operation as large as Sears is itself a huge repository of information and I talk to people at all levels as often as possible. Also, the Sears management works hard to ensure everyone is exposed to raw data. Reports *and figures that have been diluted* by cool corporate language provide little of the flavour of what is really going on.

We all sit in on research sessions, listen to interview tapes regularly and ensure that our buying teams are getting directly involved with the customer groups they are serving.

Another extremely effective way of discovering how well your company is operating is to spend *time with suppliers.* They are in a unique position to say how well the middle management level in your organisation is living up to the promises made in the corporate mission statement.

Finally, I try to get out of the office as often as possible. There is no substitute for direct experience. Few of us get out of the office into the real world often enough.

For relaxation, I am a steady reader of fiction and usually get through a book a week. The range is fairly eclectic. I am not a radio fan, but I do listen to the Archers occasionally to upstage my wife who is a fanatical follower. I *rarely watch television.*

I travel a great deal and aeroplanes, at least in Europe, are still a haven from the *telephone and a great place to* work and catch up on reading. At airports I usually buy a wide range of magazines including, I have to confess, Hello!.

Next Monday: George Prince of the Synectics Corporation on running better meetings.

As Nafta takes root, **Damian Fraser** looks at business relations between the US and Mexico

Culture clash on the Rio Grande

The difference between business cultures in the US and Mexico can be trying for both countries. They may have just signed a free trade agreement, but business practices in the two countries are strikingly different, and will probably remain so for some time to come.

The culture clash, as weary US executives call it, has tripped up foreign companies thinking that business in Mexico will be much the same as that at home. Recently several foreign firms – including Commercial Union of the UK and Quality Coils of the US – have packed their bags, after trying and failing to do business south of the border.

The differences range from the apparently trivial – the time lunch is taken and for how long – to more serious issues such as the way workers should be treated to bring out the best in them. While Americans complain that Mexicans abhor deadlines, and defer taking decisions, Mexicans say that Americans are always in a hurry and are too impersonal.

For those who get it right, the rewards can be great. Some US plants in Mexico are among the most productive in the world, such as Xerox's in Aguascalientes and Ford's in Hermosillo. Roberto Batres, head of Arthur D. Little in Mexico, says "the most powerful and basic force behind Nafta is the positive experience US companies have had with Mexican workers".

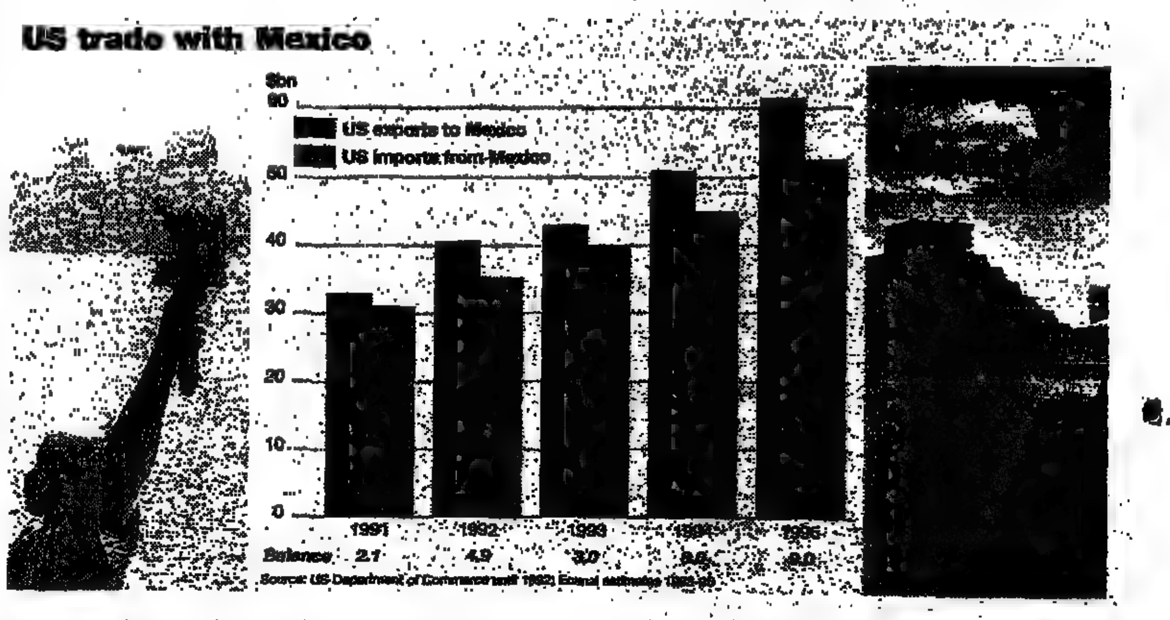
The differences in business practices partly derive from a lack of competition in Mexico. Until the late 1980s Mexico's economy had been closed to trade, and there was little incentive to be efficient. Companies enjoyed huge market power, so the customer was never considered important. Government regulations were often burdensome, so rule-bending and good contacts in the bureaucracy were essential.

While this is now changing, many US executives are frustrated at the slow pace of modernisation. John Atterbury, head of Southwestern Bell in Mexico, which has a minority stake in Mexico's monopoly telephone company, says he has repeatedly tried to increase the number of operators working in directory services, without any success.

"Obviously any time you come into a country and have an advisory *role it is difficult. The main* problem is the union rather than the management. The unions have problems communicating with their *rank and file," he says. "We have to* change the culture to be more customer-orientated."

Simple administrative differences in Mexico compared with the US often surprise American companies, says Laurence Noclain of consultants Resource Valuation Limited. In Mexico, all bills, for example, have to be paid in person, since no company relies on the postal service. This means that salespeople are also in charge of collecting receivables. It is essential that they be rewarded not just on total sales but according to their success in collecting bills, says RVL.

US trade with Mexico



Mark Ehrlich, a psychologist who prepares US executives for work in Mexico, says some difficulties arise from different cultural traditions. Mexicans, he says, are more inclined to accept the intrinsic worth of individuals without demanding specific performance or achievement; Americans tend to judge everyone as equal, and value them according to results.

Mexicans in his view rarely put abstract rules and principles over *the needs of individuals.* Americans believe strongly that no one is above the law, and avoid making exceptions. Mexicans tend to avoid *confrontation for fear of offending* people, whereas, in his view, Americans "state the facts, regardless of the impact".

This has important implications for businessmen. Frank Digregorio, the head of Xerox in Mexico, says he tries to make all his Mexican workers feel part of a community, or family. If the workers have to start at 6am, he is there to greet them. He tries to have a meeting with the unions every two weeks, and a maximum every four weeks. "Teamwork is essential," he says. "You need to communicate a passion for quality."

Guillermo Grim, head of Canada's Northern Telecom in Mexico, says: "You can be cold and personal in Europe and the US and it works. In Mexico, the best way to do things is to be warm and friendly." He warns Americans never to lose their temper, or embarrass Mexican colleagues in public.

The element that perhaps *most* frustrates foreigners in Mexico is time. When Mexicans say "right now" they often mean whenever *they can. No one is surprised* when meetings start late, or are interrupted by long telephone calls. Again, some of the explanation may be economic: when Mexico's economy was closed, a shortage of spare parts and raw materials meant planning was difficult, and improvisation essential.

Like much in Mexico, this is now changing, both in the private and public sector. Whereas 15 years ago Luis Echeverria, then president, took pride in arriving several hours late for everything, President Carlos Salinas is almost always on time. The business-orientated north of Mexico is much more focused on punctuality than the capital, and in terms of time-keeping is almost indistinguishable from the US.

With pay and educational gaps between management and workers much wider in Mexico than the US, Mexican companies tend to be more hierarchical, and less responsibility is delegated. "There are fewer people taking decisions and more people supervising," says Barry Wilson, head of Cadbury Schweppes in Mexico.

Batres says that foreign companies should not mimic this kind of structure. In his view the lack of delegation in Mexican companies partly explains why productivity lags far behind the US. The centralised decision-making stifles creativity, and is economically costly, he says.

"US companies have learned something that, disgracefully, most Mexicans have not realised," he adds. "This is the tremendous value in the Mexican workforce. It is the gateway to a lean manufacturing process. But the workers have to be treated right."

Architecture/**Colin Amery**

A monster that may ruin St Petersburg

St Petersburg is the most perfectly planned and impressively classical city in Europe. I was overwhelmed by its beauty on my first visit in last week's heavy snows. I had expected the huge scale of everything, the sense of autocratic grandeur and the glorious use of colour, but I had not appreciated that St Petersburg is more than a city of wonderful individual buildings – it is *itself* a great architectural landscape.

The other surprise for me was not that the city reaches aesthetic perfection as the apogee of the neo-Classical style, but that it is so romantic. Views in the city are on such a scale that columns become like trees and groves, with statues and trophies that catch the eye in arcadian scenes. Of course the snow helped – and the silence at night, the lack of cars and the absence of advertising. At night the city still has a romance that has been killed in most west European cities. It is properly lit so that parts are dark and there is no hideous overall sodium glow.

A permanent sense of political potency lingers in St Petersburg like no other city on earth. It is not a part of the great semi-Asiatic continent to which it is the Baltic gateway. Instead St Petersburg has a sense of European 18th and 19th-century harmony that gives it an extraordinarily enlightened and civilised face. Peter the Great founded the city in 1703 as an act of will to demonstrate that Russia could be dragged out of the medieval darkness into the glow of the enlightenment. He never saw the scale of the city that we see now. But it is his dreams that have flourished upon the wooden and stone piles that he drove relentlessly into the impossible marshes.

This strange and violent founder of the city had his own son killed in the Fortress of St Peter and Paul; Tsar Paul I was later strangled in the magnificent Mikhailov Palace. Crowds were shot at outside the Winter Palace; and no one in St Petersburg can forget the long Nazi siege and the longer tyranny of communism. It is impossible for visitors not to sense the depth and misery of the past while rejoicing at the visual riches of the city today.

There is also the sense of bafflement for foreigners who have endured the recent years of cold war to find a formerly communist country where the Tsarist past has been both respected and rebuilt. The palaces of Tsars look as splendid today as they ever have – and the work continues with the rebuilding of Tsarkoye Selo and the accurate reinstatement of much of the work of that great Scottish architect, Charles Cameron, who was employed by Catherine the Great and her son. Evidence is everywhere of an incredibly high standard of craftsmanship and a continuity of architectural and decorative traditions.

I was particularly honoured to visit the Russian Academy of Fine Arts Institute of Painting, Sculpture and Architecture in its huge, palatial premises on the bank of Vasilyevsky Ostrov, designed in the mid-18th century by Vallin de la Mothe, who was also its first professor of architecture. I have never felt such a sense of cultural continuity as I felt in the halls and corridors of this vulnerable palace. On its walls hang the diploma works of its artist students in unbroken ranks from the 1750s. Life drawings and paintings process in uninterrupted lines on the walls of the great rooms. Although for more than two centuries the subject matter and approach has hardly changed, it is possible to sense the precise dates when the work was executed by the very atmosphere that they exude. *Like the steps of classical ballet the rigorous rules of the fine arts can be interpreted*, once learned, with originality.

This tangible tradition extends to the teaching of architecture, and the display of great wooden models of some of the major buildings of St Petersburg is a unique and inspirational three-dimensional archive. The architectural students of today are well trained in the traditions but uncertain which direction to follow. Their cultural isolation has, *until now, saved them from the* barmier aspects of Modernism and the cruder efforts of western commercialism. But terrible clouds lurk on the horizon.

At a recent Prince of Wales's Business Leaders Forum in the city the full horror of one proposal for St Petersburg was unveiled. The proposal to build a giant and pointless tower block on the western part of Vasilyevsky Ostrov for offices, "food-courts and a business centre", has been promoted by the Corporation of The Twentieth Trust, a group that has grown out of a state construction and contracting company and is now privatising itself.

The most shaming aspect of the whole absurd and damaging proposal is that it is designed by a British firm of architects who should be hanging their heads in shame. Wilson Mason and Partners may well have been chosen because they have representative offices in Russia – as they have in the Middle East and (God help us) in Prague. This scheme looks like a pathetic copy of Canary Wharf and I am sure that Mr Oleg Kharchenko, the deputy mayor and chief city architect, will refuse permission for this monster to rise and be seen above the glories of the unsullied centre of St Petersburg.

It would be a terrible error for St Petersburg to copy the ludicrous mistake of Canary Wharf and London's Docklands. Neither of these is an example of commercial or architectural intelligence.

St Petersburg should advance slowly. An independent Anglo-Russian initiative has been launched by the architect Robert Adam and Professor Semion Mikhailovsky at the Russian Academy to hold a conference and exhibition at The Hermitage in September next year. Why should yet another city be ruined by inept commercialism and the adoption of bankrupt architectural ideas from the west? St Petersburg deserves great thought and care before anything is done that will make it exactly like everywhere else. The Peter the Great Tower, as this proposed excrescence is called, is an insult to the city and must not be built.

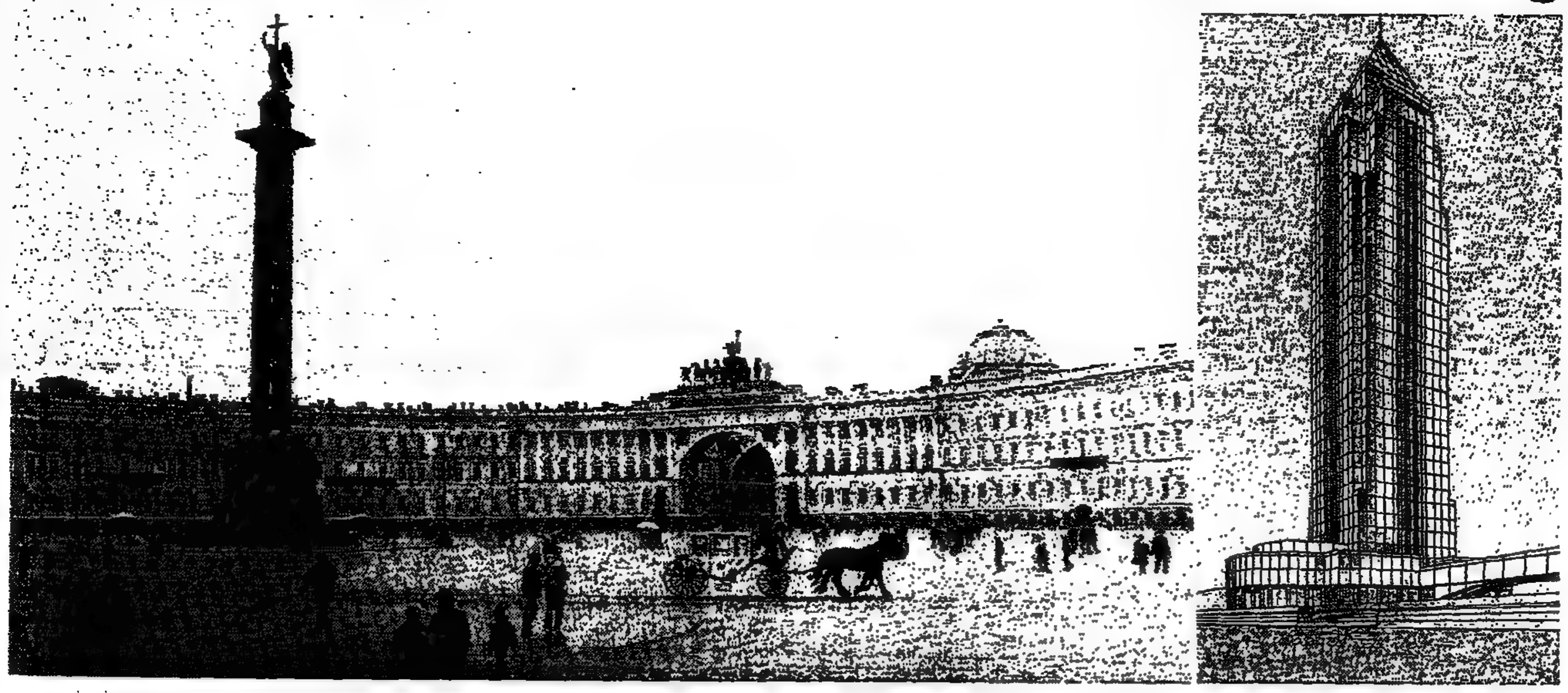


Photo: Tony Andrews

Landscape under threat: UK architects have designed a tower in the style of London's Canary Wharf for a city unsullied by bankrupt building ideas from the west

Theatre/**Alastair Macaulay**

You Can't Take It With You

The 1930s were the golden age of American comedy, on both stage and screen. And numerous plays and films from that decade remain, not only classic comedies but also classic expressions of the American spirit. *You Can't Take It With You*, the most popular of the eight comedies co-written by George S. Kaufman and Moss Hart, comes to us from 1936. Inasmuch as it is about an eccentric family who carry on being eccentric when they are entertaining polite guests, it is an American counterpart of Noël Coward's well-known *Hay Fever* (1925). The differences between the two plays tell us much about America and England.

In both *Hay Fever* and *You Can't Take It With You*, the eccentric family submits its guests to party games with embarrassing results. But Coward's play, for all its brilliance, is merely about bad social manners. The Kaufman-Hart comedy goes far further, for it is about the complexity of society itself. The Sycamore family may have its crazy sides, but it is also a paradigm of the great American melting-pot. Gradually it exposes the primness of the polite guests as a form of repression; whereas the sometimes offensive hosts become a model of generous toleration.

If you, like me, are in love with the American dream, the values that underpin this play will move you even as you laugh at its farcical absurdities. Certainly the Sycamore family is absurd. Mrs Sycamore (who began to write plays one day eight years ago when a typewriter was delivered to the house by mistake) is given to declaim lines from her scripts in mid-conversation – for example, "Kenneth, my virginity is a priceless thing to me!" She keeps nibbles in a skull. Mr Sycamore, a scientific experimenter, keeps causing explosions in the cellar.

Their daughter, Essie, practises ballet in the living-room, and her husband, Ed, shoves anarchist/Trotskyist slogans in his candy-deliveries because they amuse him. Grandpa has been avoiding paying income tax by claiming to be dead. Visitors include an alcoholic actress, a Russian ballet teacher and one of those White Russian aristocrats who are currently earning their livings by serving in restaurants. ("Who was that?" "The Grand Duchess Olga Katrina. She's just fixing the dinner.")

Amid all these crazies, Alice, the Sycamores' other daughter, is a jewel of graceful normality. (In this context, she is as odd as the niece in *The Munsters*.) And the polite/prim guests are her in-laws – who no sooner come to call than they find themselves carted off, with everyone else, to jail by the cops.

At the King's Head, Islington, the play is delectable – both funny and touching. Nothing about Martin Connor's staging is perfect; the members of the large cast are either miscast or limited or weak in American accents; and, of course, the tiny stage is so cramped that the actors have to shift a table before they can line up to take curtain-calls at the end. But so what? The play is simply honey; and everyone performs it with such perfectly good intentions that audience and players are caught up together in a conspiracy of mirth and affection.

Comedy/**Antony Thorncroft**

Newman and Baddiel

On Friday the comic duo, Newman and Baddiel, announced that they were splitting up. Unfortunately they still went ahead with the final show that evening. You can see why: it was the big one, Wembley Arena, where no comedians had ever ventured before. A 12,000 crowd, a £100,000 plus pay off.

There was a definite air of excitement: this was a new experience. The stage was set in the round, a vast space on which egos could easily be slain. But the crowd, mainly young girls currently bereft of a worthwhile fantasy pop star, was in a fever of excitement. Two and a half hours later, after the last exposure of Newman and Baddiel's most famous sketch featuring two bickering history professors, the audience faded away in silence.

It was bitterly disappointing. There is no physical chemistry between the two 29 year olds (like many double acts they are not friends), and on the rare occasions when they shared the stage there was an "how many minutes more of this stuff" feel to the exchanges. In the main they do solo spots of mixed quality.

Of course neither Newman nor Baddiel tell jokes - where have you been. They are staunch members of the "quirky observations of the passing scene" school of humour, with particular reference to private functions. David Baddiel is the laddish one, with jokes about football, or, rather Graham Taylor, and the perils of disco dating. He revels in the scatalogical, majoring in pornography. Compared to Ben Elton or Frank Skinner it is all quite refined but it managed to extract embarrassed shrieks.

In contrast Robert Newman is almost sophisticated, throwing words like existential and conceptual into anecdotes about the problems of being a punk in a small village. He also has the best character, a languid pervert in a smoking jacket who positively boils over at the prospect of providing a bed for homeless lads over Christmas.

Newman is also happy to be politically incorrect, with a sketch on psychopaths released into the community, and the tease that in his blanked out television utterances Gerry Adams is actually instructing the nation's lip reading deaf to mix the Semtex.

In this tired performance Newman and Baddiel were not good enough for their audience. It says much for educational progress that the most anticipated spot is built around bickering dons. The idea is that their discussion on the pagan origins of Christmas should be sidetracked into personal abuse at the level of the infants playground.

Like much of Newman and Baddiel, like Friday night itself, it was one sketch too far. The fact that they were being slowly revolved on the stage to give everyone a view took away some of the intensity, but even so the exchanges were as limp as yesterday's lettuce. An audience of a hundred in a pub comedy club might have reckoned they had a fair evening. At Wembley Arena this particular comedy bubble burst.

Broadcast music/**David Murray**

An accessible Elliott Carter

For Radio 3 listeners still on their way to work, with car radios or Walkmans, on weekday mornings after 9 the "Composer of the Week" is generally a safe bet. The accredited Greats can be sliced into specialised five-morning exhibits (Bach at Cöthen, say, or Mozart's quintets, or Stravinsky's choral pieces); other weeks can feature less familiar but digestible composers – Chausson, or Biber, or the lesser colleagues in Schumann's circle, nothing tougher than Britten or Bartók. All this week, however, Radio 3 is treating innocent ears to a radical modernist, the American Elliott Carter.

Just a day younger than the late Olivier Messiaen, he turned 85 on Saturday (as Berlioz turned 190); but Carter is still *formidably* hale and genial, and laden with new commissions. Yet between the reverence accorded to him among serious musicians, and the bare acquaintance with his name that most concert-goers have, the gap remains enormous. In the days when I still read *The Times*, Bernard Levin used regularly to invoke Carter's name as the very emblem of rebarbative modern music. Lutosławski and Tippett, who are also old enough to have published a body of more easily "accessible" music before they located their most original veins, enjoy much broader acclaim.

To any listener new to Carter, and with meagre experience of "progressive" musical developments since about 1950, the works of his splendid late maturity may seem opaque thickets. There is a lot of intense polyphony, and a lot of drama, but without standard, recognisable guidelines; not knowing what you're meant to listen for, you may retreat baffled. It is like meeting Beethoven's late quartets without knowing any Mozart or Haydn. But the series devised for Radio 3 this week by Misha Donat (which really started last Thursday night, with *Carter's 1969 Concerto for Orchestra*) has a judicious, enticing virtue, and a further bonus.

The special virtue is that it enlists early, "easier" Carter each day to set us up for the denser stuff – something that would be difficult and expensive within a live concert programme. The earlier pieces, all from the war years, share an American breeziness (with notable ingenuity, but no very striking individual voice) with the out-of-doors terms of Copland and Piston – but also the rangy contrapuntal lines Carter developed whilst studying in Paris with Nadia Boulanger.

From today to Wednesday, each programme culminates in one of the *grand transitional works which* take the ideal of free-running counterpoint far out: the piano and cello-and-piano sonatas, and the towering First String Quartet of 1951. Those all trade upon just enough post-Romantic rhetoric to give us reassuring signposts, but also attune us to constant platform-hopping between one passionate line and another, simultaneous but only loosely and fluidly – and yet most calculatedly – connected with it. Though the intricate whole seems to teem far beyond what we can take in, it draws us into ever closer listening, with ever-increasing rewards.

In Carter's music, as he himself declares in these broadcasts (his crusty, sensible commentary is the special bonus here), the distinct voices "are free people; this is a world of free individuals joining together to do something – in their own way, and not all marching in goosestep together, the way they do *in older music*." Deeply American, that; but the exercise Carter gives it is vitally exhilarating, demanding a new, athletic kind of musical attention. As the pubescent hero of the American TV series *Soap* declared, after losing his virginity to his schoolmarm, "It's like discovering you've got a third arm!"

INTERNATIONAL ARTS GUIDE

BERLIN

OPERA/DANCE

Deutsche Oper The main event this week is the first night on Sun of a new production of Un ballo in maschera, conducted by Rafael Frühbeck de Burgos and staged by Götz Friedrich, with a cast led by Mara Zampieri, Neil Shicoff and Vladimir Chernov (repeated Dec 27, Jan 4 and 7). Repertory includes Hansel and Gretel, Die lustigen Weiber von Windsor, Die Zauberflöte and Peter Schaufuss' production of Nutcracker. Meistersinger is performed on Christmas Day and Jan 2 (341 0249)

Staatsoper unter den Linden The new Barenboim/Kupfer production of Die Walküre, premiered last night, can be seen on Dec 15, 19, 22 and 28, with a cast headed by Deborah Polaski, John Tomlinson and Poul Elming. Repertory also includes Madama Butterfly, Hansel and Gretel and Nutcracker. Barenboim conducts Beethoven's Ninth Symphony on Dec 29 and 31 (200 4762/2035 4494)

CONCERTS

Philharmonie Tonight: Christoph Eschenbach conducts Chamber Orchestra of Europe in works by Schnittke and Schoenberg, with violin soloist Gidon Kremer. Tomorrow, Wed, Thurs: Claudio Abbado conducts Berlin Philharmonic Orchestra in Beethoven and Lutoslawski, with soloists Murray Perahia and Kolja Blacher. Fri: Trevor Pinnock directs the English Concert in Telemann, Handel and Corelli. Sat: Heinz Holliger conducts Chamber Orchestra of Europe. Sun, next Mon and Tues: Nikolaus Harnoncourt conducts Mendelssohn and Schubert. Dec 30, 31: Abbado conducts Wagner (2548 8132)

Schauspielhaus Wed, Thurs: Bernhard Klee conducts Berlin Symphony Orchestra in works by Webern, Beethoven and Zemlinsky, with piano soloist Andreas Haefliger. Fri: Heinz Wallberg conducts Berlin Radio Orchestra in Wagner and Bruckner, with mezzo soloist Kathleen Kuhlmann. Dec 20, 21: Barenboim conducts Beethoven, Boulez and Rimsky-Korsakov (2090 2156)

THEATRE

Tonight sees the premiere at the Berliner Ensemble of a new production of Sean O'Casey's Juno and the Paycock, directed by Fritz Marquardt (282 3160). Peter Sellars' English-language version of Aeschylus' The Persians, first seen at this year's Salzburg and Edinburgh Festivals, runs from tomorrow till Sat at Hebbel-Theater (251 0144). A new production of Ibsen's The Lady from the Sea has just opened at Volksbühne am Rosa-Luxemburg-Platz (282 3394), to be followed tomorrow by the first night of Andrea Breth's staging of Hedda Gabler at Schaubühne (890023). Neil Simon's The Sunshine Boys opens at Theater am Kurfürstendamm on Thurs (882 3789). Tennessee Williams' Suddenly Last Summer and Corneille's Le Cid have joined the Deutsches Theater repertory (2844 1226). Ute Lemper is in residence at Bar jeder Vernunft till Sun (883 1582)

NEW YORK

THEATRE

● Angels in America: Tony Kushner's epic two-part drama can now be seen in its entirety, on consecutive evenings (Walter Kerr, 219 West 48th St, 239 6200)

● The Kentucky Cycle: Robert Schenkkan's drama follows 200 years in the life of a mining family in Appalachia, and is performed in two parts (Royale, 242 West 45th St, 239 6200)

● Abe Lincoln in Illinois: Robert E. Sherwood's play about Lincoln's life in the years running up to his presidency (Vivian Beaumont, Lincoln Center, 239 6200)

● Gray's Anatomy: an autobiographical monologue by Spalding Gray, in which he goes on an adventure through traditional and alternative medicine, realising he must deal with his own mortality. Till Jan 3 (Vivian Beaumont, 150 West 65th St, 239 6200)

● The Ash Fire: a comedy by Gavin Kostick about a Polish family who mistakenly land in Ireland as they try to stow away to America (American Jewish Theatre, 307 West 26th St, between Eighth and Ninth Avenues, 633 9797)

● Later Life: A.R. Gurney's witty, perceptive play about a man and woman who meet after a 30-year separation (Westside, 407 West 43rd St, 307 4100)

● Heartbreak House: Shaw's drama about people so saturated in pleasure that they have lost purpose (Bouwerie Lane Theatre, 330 Bowery at Bond/Second Streets, 677 0060)

● A Grand Night for Singing: a 50th anniversary musical celebration of the collaboration of Rodgers and Hammerstein, with songs from Oklahoma, Carousel, The King and I, the Sound of Music and others. Till Jan 2 (Roundabout, Criterion Center, 1530 Broadway at 45th St, 869 8400)

● She Loves Me: the 1963 Bock, Harnick and Masteroff musical has all the humanity, integrity and charm that Broadway's mega-musicals lacks (Brooks Atkinson, 256 West 47th St, 307 4100)

OPERA/DANCE

Metropolitan Opera Luciano Pavarotti stars in Verdi's I Lombardi tomorrow, Fri and next Tues (also Jan 7, 12, 15, 20). James Levine conducts a revival of Berlioz's Les Troyens on Thurs, with a cast led by Françoise Pollet, Maria Ewing and Gary Lakes (repeated Dec 20, 23, 27, Jan 1, 4, 8, 13). Repertory also includes La boheme, Fidelio and Il barbiere di Siviglia (362 6000)

State Theater New York City Ballet's Christmas production is the Balanchine version of Nutcracker, daily except Mon till Jan 2, with an extra matinee performance on Sat and Sun. No performance Dec 24, 25, Jan 1 (870 5570)

Joyce Theater American Indian Dance Theatre has a two-week season starting tomorrow (242 0800)

CONCERTS

Carnegie Hall Tonight: Kathleen Battle. Dec 24, 29: Jaime Laredo conducts New York String Orchestra (247 7800)

Avery Fisher Hall Wed, Thurs, Fri, Sat: Kurt Masur conducts New York Philharmonic in Brecht, Weill and Berg, with soprano Angelina Réaux. Sun afternoon: Leon Botstein conducts live orchestral accompaniment for 1925 silent film of Der Rosenkavalier (875 5030)

Alice Tully Hall Wed: Tokyo Quartet, with pianist John Kimura Parker, plays works by Haydn, Bartok and Brahms (721 6500)

JAZZ/CABARET

Blue Note James Moody Quartet and J.J. Johnson Quintet are in residence this week (131 West 3rd St, near Sixth Ave, 475 8592)

Algonquin Hotel Weslia Whitfield, one of the most assured jazz-cabaret voices to arrive in New York in recent years. Daily except Sun and Mon till Jan 1 (59 West 44th St, 840 6800)

Carlyle Hotel Bobby Short is in Café Carlyle for the Christmas season, singing Gershwin, Berlin, Ellington and others (Madison Ave at 76th St, 744 1600)

Rainbow & Stars Leonard Bernstein Revue. Till Jan 1 (65th floor, GE building, 30 Rockefeller Plaza, 632 5000)

PARIS

OPERA/DANCE

Opéra Bastille Mirella Freni sings the title role in a new production of Adriana Lecouvreur, opening next Mon. The conductor is Maurizio Benini and the producer Jean-Luc Boutte (repeated Dec 22, 27, 30, Jan 3, 6, 10, 13, 15). In repertory with Offenbach's Les brigands (4473 1300)

Palais Garnier Ballet de l'Opéra de Paris revives John Neumeier's 1974 production of The Nutcracker on Fri, thereafter daily except Sun and Christmas Day till Dec 31 (4742 5371)

CONCERTS

Châtelet Tonight: Alicia de Larrocha piano recital (4028 2840)

Théâtre des Champs-Elysées Wed: June Anderson song recital. Thurs: Elisabeth Leonskaya piano recital (4952 5050)

Salle Pleyel Wed, Thurs and Fri: Georg Solti conducts Orchestre de Paris and Chorus in Beethoven's Missa Solemnis, with Julia Varady, Birgitta Svenden, Vinson Cole and Peter Mikulas (4561 0630)

JAZZ/CABARET

American singer/pianist La Velle opens a two-week engagement tonight at Lionel Hampton Jazz Club, in harness with Gerard Badini's Swing Machine. Daily except Sun from 10.30pm to 2am (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

THEATRE

Brecht's Nazi allegory The Rise and Fall of Arturo Ui, directed by Jérome Savary, has just opened at Théâtre National de Chaillot, with Guy Bedos in the title role (4505 1450). Ibsen's The Wild Duck has joined the repertory of the Comédie Française (4015 0015)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
Super Channel: European Business Today 2230; repeated 0630, 0715
MONDAY
Super Channel: FT Reports 1230.
TUESDAY
Super Channel: West of Moscow 1230
Euronews: FT Reports 0745, 1315, 1545, 1845, 2345
WEDNESDAY
Super Channel: FT Reports 1230
THURSDAY
Super Channel: West of Moscow 1230; FT Reports 2130
Euronews 0745, 1315, 1545, 1845
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

Samuel Brittan

The harmful myth of hidden state debt

According to an ancient sage there are three kinds of human ills: those inflicted by providence, those inflicted by our fellow men and women, and those we inflict on ourselves. The scare campaign to increase the size of estimated government debt by adding in unfunded public sector pension liabilities belongs to this last category.

The origins of the campaign are an innocent enough attempt to study the increasing burden that state pensions will be putting on ageing communities in the years ahead. The burden arises from the combination of falling birth rates and increasing longevity. The EU dependency ratio – those aged over 65 as a proportion of those aged 15 to 64 – is expected to rise from 22 per cent in 1980 to 40 per cent in 2040.

The error has been to project government pension commitments for the years ahead, and (to the extent that they cannot be met from existing taxation) to add their present value to the outstanding government debts as normally measured. The effect of adding in these unfunded liabilities goes well beyond accounting niceties. The result is to double the ratio of debt to GDP on which so many governments focus, to make most countries seem even further removed from the Maastricht guidelines than they are at present; and above all – by persuading public opinion that government finances are even worse than they are – to encourage hair-shirt fiscal policies, involving an increase in taxes at a time of uncertain recovery from long-running depression.

Some economists are wont to replace crude government borrowing targets with aims such as maintaining the net value of public sector assets. But if government balance sheets are recalculated to include the supposed hidden pension debt, then existing public sector balance sheets will look much worse and appear to be deteriorating, thus encouraging the fiscal zealots who look for every pretext to raise taxation. We need a more pessimistic presentation of government balance sheets as much as we do a hole in the head.

The latest pessimistic estimate to land on my desk is from CS First Boston and is entitled *Employment and Hidden Debt*. It is indeed the estimate of the debt which makes the employment prospects worse than they need be. I am using this firm's estimates because they are particularly comprehensive and carefully researched – and my spirits were raised when I read the quotation from T S Eliot's *East Coker*, one of his *Four Quartets*, at the end of the paper.

The study is devoted to "unavoidable yet unfunded" public sector liabilities, of which pensions form a large part. The result for most countries is that hidden debt is higher than conventional debt. All EU countries, bar the UK, have debt ratios several times the 60 per cent Maastricht guideline. The combined debt-to-GDP ratio for the Netherlands is blown up from nearly 80 per cent to over 225 per cent. The UK emerges far better than any other country from these computations; but its debt ratio in 1990 is still increased from 40 to 74 per cent and would doubtless be much higher now.

The fallacy of such estimates is to treat pension commitments differently from other forms of public spending. The pay-as-you-go schemes, from which the scare stories stem, are based on each generation of workers paying through taxes and contributions sufficient to cover the cost of pensions for those already retired. Thus pensions are, like any other form of rising public expenditure, to be met from higher tax revenue or social security contributions, or reduced spending elsewhere.

The hidden debt estimates assume that governments will either try to default on their commitments or try to meet them by increased borrowing, irrespective of the state of their economies. The CS First Boston authors cite General Motors, where a new accounting standard, providing for the inclusion of current and future healthcare liabilities, slashed 75 per cent off the corporation's equity in 1992. The analogy is wrong because General Motors – heaven be praised – does not have the power of a government to raise taxes.

Since financial topics give rise to so much emotion, I must make some disclaimers. Of course CS First Boston and other analysts are right to worry about the burden of rising pensions. Alternatives, such as more private pension provision, should indeed be considered. The point of disagreement is the limited but important one of estimating national debt ratios. The question is: do the European financial institutions really want to promote fiscal policies which will make the present economic stagnation worse and delay recovery still further?

'True' government debt 1990 (% of GDP)

	Conventional debt	Unfunded liabilities	Tax claim on public pensions	Tax claim on private pensions	'True' debt
Belgium	126	112	22	0	218
Denmark	67	97	19	0	145
France	47	105	21	2	130
Germany (W)	44	178	36	5	182
Greece	95	196	39	0	253
Ireland	102	103	21	12	172
Italy	98	184	37	0	245
Luxembourg	7	238	48	0	197
Netherlands	79	210	42	21	226
Portugal	68	167	33	0	202
Spain	45	183	37	0	191
UK	40	70	14	22	74

Source: CS First Boston

Smoke gets in Europe's eyes

Diane Summers on divisions among EU health ministers and advertisers over tobacco products

Peter Mead is a 30-a-day smoker who thinks tobacco advertising should be banned. He knows it isn't entirely logical, but he feels some degree of reassurance every time he sees a cigarette advertisement. "At the back of my mind I have to believe the government wouldn't allow something that's going to kill me to be advertised." Mr Mead is chairman of Abbott Mead Vickers, a top UK advertising agency which refuses tobacco company business.

Dominic Proctor, London chief executive of New York-based agency J Walter Thompson, which has among its clients the tobacco company Gallaher, the UK subsidiary of the US company American Brands, takes the rather less exceptional line for an advertising man. "There should be freedom to advertise anything which it is legal to market," he says.

In Brussels today the arguments which currently divide the advertising industry will be reflected in a debate between European Union health ministers. Under discussion is a European Commission draft directive that would ban all tobacco advertising, apart from point-of-sale material, across the EU.

The Commission's action has been prompted by research showing tobacco products cause 430,000 deaths a year in EU countries. Among the middle-aged population, tobacco products are responsible for at least a quarter of all deaths.

The Commission also says prohibiting advertising will overcome the problem of differing rules across member states preventing the free flow of, for instance, magazines containing cigarette advertisements.

In response, the tobacco and advertising industries point out that the keenest advocates of the plan – France, Italy, Portugal and Spain – either have state-run tobacco companies or allow other companies to operate a monopoly. It would be harder for others to compete against the dominant players in these countries if they were not allowed to promote their products.

They also warn that a ban could set a worrying precedent: today Brussels wants to outlaw tobacco advertising, tomorrow it could be fast cars, children's toys, pharmaceuticals or Black Forest gateaux.

For the moment, at least, it is likely that the Commission will be unable to persuade EU states to support its directive, as it has been since the directive was first put on the table in 1991. Realising that agreement is unlikely, supporters of a ban will probably not push for a vote today.

In the past it has been Germany, Denmark, Holland, Greece and the UK which have blocked a comprehensive ban. Greece, under its new Socialist government, may have softened its stance. But the four remaining opponents have enough votes under the qualified majority voting system to continue blocking its progress.

The position of the UK could prove pivotal. It has been the most vociferous opponent of an EU-wide ban and it is widely thought that Denmark and the Netherlands would switch sides if the UK were to change its position.

So far the British have preferred a policy of a voluntary approach to restricting advertising and high taxes on tobacco products – the duty on tobacco was increased by 7 per cent in last month's Budget.

Tobacco advertisers in Europe believe they have won a reprieve – but no more. Privately, many in the advertising industry see public opinion forcing an end to tobacco advertising in Europe within three or four years.

An indication of the mounting *pressure of public opinion* is already being seen in the UK. The government is expected soon to announce it will be negotiating tighter "voluntary" controls with the tobacco and advertising industries.

Options include an end to poster advertising, a ban on tobacco advertisements in womens' magazines, removing shopfront advertising, and larger health warnings on packs. Proposals along these lines could help to head off the threat of cross-party support growing for a private member's bill introduced by Labour MP Mr Kevin Barron which the government is highly likely to want to block. Such proposals would also provide something for ministers to offer at a European level as an alternative to the proposed ban.

Tobacco products are responsible for at least a quarter of all deaths in middle-age

The advertising sector accepts that such a move in the UK could presage an eventual crumbling of UK resistance to a EU wide ban. And it is already preparing accordingly even though the European Commission calculates that tobacco advertising makes up less than 3 per cent of advertising for all goods and services in the 12 member states. For example, Mr Russell Gore-Andrews, chairman of More O'Ferrall, *the hoardings* company which has operations across Europe says: "The job of our marketing has been to broaden the base of customer demand in all our markets, so that we are not too dependent on one sector."

While there is clearly movement towards further restrictions in Europe, voluntary or otherwise, there is no definitive answer to one question which ought to be central. Does a ban on advertising cut the number of smokers? The Tobacco Advisory Council, the UK trade body, says that the sole purpose of tobacco advertising is to promote competition and encourage existing smokers to switch brands. It estimates that the value of business from smokers who switch is worth £3bn a year. It denies that advertising encourages smoking.

Not so, according to Dr Clive Smee, the department of health's chief economist. Last year he reported that studies of Canada, Finland, New Zealand and Norway, where tobacco advertising bans have been in operation, showed "a fall in smoking on a scale which cannot reasonably be attributed to other factors".

But his research appears to clash with a study by Michael Stewart, an econometrician, in the May edition of the International Journal of Advertising. That showed a slight *increase* in smoking in those countries where there has been a ban. A possible reason is that banning advertising also means no health warnings to put off smokers, except on packets. "This increase is not quite statistically significant, but clearly refutes the belief that advertising bans have appreciably reduced consumption," concludes Mr Stewart.

As he points out, the space now devoted to the health warnings is the "equivalent of millions of Ecus of ongoing anti-smoking advertising" across Europe. If European health ministers decide that they want to impose a ban on advertisments, they may need to seek some alternative ways of funding those warnings.

But the niceties of this debate are unlikely to worry the tobacco companies, although they will continue to lobby vigorously against any measure which could affect sales. The companies already know that tobacco consumption in western European markets is dropping as concerns about the health effects spread and as smoking becomes less socially acceptable. The decline is not sharp – about 2.5 per cent in volume terms in EU countries over the past five years – but it is steady and shows no sign of slowing.

In contrast, new markets are opening in Asia and the Pacific Rim, and in eastern Europe, where smoking is gaining in popularity and sales. In China, for example, cigarette sales grew from 1,649bn to 1,705bn in between 1991 and 1992.

With such virgin territories to play for, the possibility of an ban on advertising in Europe may ultimately appear to be a a small distraction.

Tobacco advertising in the EU: being stubbed out

(TV advertising is banned throughout EU)

		Cigarettes per capita per annum (1991)
France	Banned	[illegible]
Portugal	Banned	[illegible]
Italy	Banned – widely circumvented by indirect advertising	[illegible]
Belgium	Severe restrictions; total ban in the pipeline	[illegible]*
Denmark	Local radio ban; other controls through voluntary agreement	[illegible]
Germany	Banned on radio. Other legal controls and voluntary agreements	[illegible]
Greece	Banned on radio. Other controls	[illegible]
Ireland	Detailed regulations	[illegible]
Luxembourg	Major legal restrictions	[illegible]
Netherlands	Banned on radio; press and posters voluntary agreements	1,222
Spain	Radio and poster banned; additional voluntary restrictions	[illegible]
UK	Voluntary agreements	[illegible]

Source: Action on Smoking and Health and Euromonitor

* For Belgium and Luxembourg combined

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Hub and spoke not to blame

From Mr Michael Medlicott.

Sir, Your story, "Dinosaurs on the runway" (December 8), *reported* that US airlines are questioning whether the hub-and-spoke concept is valid any more, and that this system is one of the reasons big carriers have incurred financial losses in contrast to small airlines *which operate* no-frills, shuttle service between pairs of cities and make money.

This is not true at Delta Air Lines, originator of the hub-and-spoke system in aviation. Through the years we have continued to perfect the concept and today operate the most geographically balanced route network in the US. For Delta the hub-and-spoke system is the most efficient way of offering the most flights, to the most destinations, for our passengers and shippers, while maximising our assets. Last year, Delta was the only airline in the world to operate more than 1m departures. While many of these flights operated to or from one of our hubs, we have plenty of point-to-point flights where the market demands it, like the Delta Shuttle service between Washington, New York and Boston.

The article stated that one of the big disadvantages of the hub-and-spoke system was that staff were standing idle during non-peak times throughout the day. *In our Atlanta hub*, the world's largest, we operate more than 500 flight departures every day and, like our other hubs, it is staffed according to the demand. No Delta staff stand idle; they are among the most competitive and flexible in the world.

If there are dinosaurs, Delta is *not one of them*. Delta relishes change and that attitude will keep us around for a long time, providing value and superior service for our stockholders and passengers. Carriers in the US have lost money because of the recession, the Gulf War and the US bankruptcy law, not because of the hub-and-spoke system and small no-frills airlines.

Michael Medlicott,
vice president - Europe,
Delta Air Lines,
Atlantic Region,
25 Buckingham Gate,
London SW1E 6LD

Tax credits hit service industry

From Mr Michael Bracken.

Sir, Martin Feldstein (Personal View, December 10) presented the opportunity to boost jobs at no cost through the use of investment tax credits (ITC). Basic economic theory should alert us to *being offered a free* lunch, and in this case some of the consequences of ITCs were not spelled out.

Broadly speaking, the "benefit" of an ITC is a tax incentive for the companies making approved investments. The cost is higher taxation on all companies not making approved investments. Professor Feldstein suggests that approved investments would be money spent on equipment and possibly construction.

The government is in no position to be the best judge of whether to encourage expenditure by companies on investment as opposed to anything else, or an arbiter of which types of investment are better than others.

Inevitably, ITC schemes have been used effectively to subsidise manufacturing investment at the expense of service industry. Policymakers should resist the temptation to meddle further in the allocation of resources and concentrate on reducing the distortions within the current taxation system instead.

Michael Bracken,
8 Princes Yard,
Princedale Road,
London W11 4PH

The route to a European constitution

From Prof Ernst Steindorff.

Sir, Edward Mortimer's article on "A pill to beat MF" *(December 8) merits praise*. He discusses the proposal for a European constitution elaborated by distinguished scholars and politicians. He mentions that this proposal is disapproved of from within the *European Commission*. We may suppose that the Commission envisages presenting its own draft for the 1996 discussions on a Union constitution.

One of the reasons the Maastricht Treaty has encountered so much opposition in quite a number of countries may be *found in the fact that it was* influenced by the Commission's selfish interests to extend the jurisdiction and the powers of the EU and, hereby, its bureaucracy. Europe can flourish only under a constitution which makes citizens understand that specific responsibilities have been transferred to the Union, because united political action *is necessary*. Nobody would understand that powers and more and more financial resources are handed over to Brussels only in order that the Union and its institutions may thrive.

Such a constitution cannot, or must not, be drafted by those who want to act for the Union and who may be eager to have their own importance buttressed. Nor may it be created by those who, not unlike former central committees, claim the knowledge of what is good for Europe and its citizens. That is why any serious proposal from outside the European institutions merits attention. There is a presumption that it is dictated by less selfish bureaucratic interests and that it is more in accordance with the interests of European citizens. Mr Mortimer, quite correctly, makes us aware of that.

Ernst Steindorff,
professor of law,
Hofbrünnstrasse 25,
81479 Munich, Germany

Fewer ITV channels bad for advertisers

From Mr Kenneth Miles.

Sir, I am glad to be able to agree with one or two things in Greg Dyke's letter (December 8), but I have to say that I disagree with *rather more of it*.

Certainly, the TV airtime market is changing and, certainly, it is in everyone's interest, including the advertisers, that ITV *remains a strong* channel. No problems with either of these statements.

However, I must take exception when he says that "advertisers already have real choice in the TV market". How can we say that a regional advertiser, or a company with regional brands, has any choice at all? If Britain wants to encourage medium-sized companies to grow, then we must make it more possible for them to use television and the other dynamic media. These companies will themselves all be operating in competitive markets, but they will not be able to buy television air time in a competitive market. For example, anyone who wants to advertise in Lancashire really *has only one TV company* available. If they want to advertise in Merseyside alone (or the Birmingham area alone, or south Yorkshire alone etc), *then their choice is even less*.

What advertisers need, therefore, is more commercial stations, offering increased regionality – not less. Mergers will do nothing for advertisers – and I suspect they will do nothing for viewers either.

For Greg Dyke to talk about "ITV's fragmented advertising" is really to put the cart before the horse. Where combined operation matters is in the programming, and the existence of the ITV Network Centre should have taken care of the need to have a national plan *for ITV* programming. Advertising sales, however, remain an entirely different subject. While companies sometimes want to buy advertising on a national scale, more often they want to buy it regionally or with regional variations.

This is not "fragmented" but "realistic" and "flexible". In other words, the sales arrangements are organised to look after the needs of the customers – not to please the sellers.

What Greg Dyke appears to want is a sales regime which suits the ITV companies, the sellers, but is quite prepared to ignore and override the needs and wishes of the customers. Funnily enough, this is exactly how monopolies and cartels normally behave.

Kenneth Miles,
director general,
Incorporated Society of British Advertisers,
44 Hertford Street,
London W1Y 8AE

هكذا من الاصل

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday December 13 1993

How to build Euro-networks

Jacques Delors' plan for big investments in trans-European networks provoked controversy at the weekend summit. Britain and Germany, in particular, do not like the idea of so-called Union bonds to finance infrastructure when member states are trying to curb budget deficits.

It is certainly possible to pick holes in Mr Delors' suggestions. The section of the Commission's white paper on this subject are poorly argued, repetitive and full of jargon. The bonds plan also suggests an effort by the Commission to outflank the European Investment Bank, which was asked by European leaders only a year ago to back infrastructure investment through increased lending.

But it would be wrong to dismiss ideas to develop trans-European networks, which are vital to the success of the union. European businesses and individuals pay a large price for the fragmentation of transport, telecommunications and energy systems.

No European can feel pleased at the delays in air travel caused by incompatible and inadequate air traffic control systems. Nor is it acceptable that it costs three times more to make a phone call across national boundaries than it does inside them. Equally, British ministers should be ashamed that trains will creep to London when the Channel tunnel opens next year because a high-speed link on the British side has not been built.

Sharp perception

Mr Delors' sharp perception of sickness in the European body is not, however, matched by his remedies. The white paper rightly states that the bulk of funding for information networks will come from private sources. It points out, too, that in the transport and energy field - where public sector involvement will necessarily be greater - private investor interest needs to be encouraged. Yet it fails to resist the temptation to place exaggerated emphasis on a central role for the Commission and Council of Ministers in channelling Euro-cash to worthy projects.

Mr Delors also seems, at times, to think trans-European networks are inherently desirable, rather than proceeding from an analysis of identified needs. Too much faith in vague concepts such as "multimodal strategy" could, combined with centralised planning, land Europe with a herd of white elephants.

The main reason for the fragmentation of Europe's networks is that the telecommunications, transport and energy industries are still mostly national public sector monopolies. Because they are national, they rarely look beyond their frontiers. Because they are public sector, they are strapped for cash when state budgets are tight. Because they are monopolies, more efficient private enterprises are discouraged from providing the missing links.

The priority is to open up the provision of infrastructure to competition. This would provide extra sources of finance, while ensuring that investment responds to commercial needs rather than political fancies. The Commission acknowledges this, but its plans are too timid.

Cost-benefit analysis

It would, however, be naive to think that liberalisation can solve all the problems, especially in transport. Many rail and road projects, which are justified on a wider cost-benefit basis, are insufficiently profitable to attract private sector support. Since national budgets are under strain, innovative ways of marrying public and private finance are needed. Possible methods include franchising services, electronic road tolls and earmarked taxes (or even bond issues) for specific projects.

Trans-national coordination is sensible where the benefits of investment spill over from one country to another. It is, for example, hard to see how a single private enterprise could address Europe's air traffic problem. Modernisation of transport links between the European Union and the countries of central and eastern Europe will also require co-ordination.

The white paper pays lip-service to the need to combat monopolisation and harness private finance, but it fails to state clearly that liberalisation and privatisation are being held up by powerful vested interests. Unless these can be overcome, with the aid of a vigorous campaign from the top, the plan for improved networks is unlikely to travel far from the drawing board.

Trickery with capital gains

The tax reforms of the 1980s did nothing to reduce the muddle that prevails over the taxation of savings in Britain. Yet they did at least bring some sense to the limited area of capital gains. The alignment of capital gains tax with income tax rates removed distortions that arose from the natural desire of taxpayers to transform income into lower-taxed capital; and the introduction of indexation of gains and losses protected investors from a hidden and arbitrary inflation tax. The decision in the budget to scrap the indexation of capital losses is thus a retrograde step. The manner in which the change is being made has also given rise to justifiable irritation on the part of investors.

In a move that has been presented in the budget as a tax avoidance measure, the Treasury is proposing to abolish the indexation of capital losses, while retaining the indexation of capital gains. The change is expected to raise an additional £300m by 1996-97, which may prove optimistic given that the entire yield from capital gains tax last year was put at a mere £1bn. The one thing that is clear about this measure is that by removing the indexation of losses, and by doing it for transactions undertaken on or after budget day, the government will in some cases impose real capital gains tax rates of well over 40 per cent. The victims will not just be sophisticated tax avoiders. Ordinary investors, who have been running losses on individual shares in their portfolio on the reasonable assumption that they could be indexed and then off-set against past and future gains on other shares, will be hit. This is little different, in practice, from retrospective legislation.

Capital erosion

At a stroke, a fully transparent top capital gains tax rate of 40 per cent is being replaced by an opaque and arbitrary rate which will depend on the composition of the taxpayer's portfolio. It will be theoretically possible for investors to suffer losses of real wealth as a result of partial de-indexation; and the risk of such capital erosion will become greater if higher rates of inflation come back. Many taxpayers will also have to re-work calculations of the base cost of their investments, going back to 1985 when the indexation of losses was first introduced.

These changes are technical and they affect only a small number of voters. Yet they are symptomatic of the way successive chancellors have abandoned all aspiration to continuity or principle in their approach to taxation. Mr Norman Lamont's introduction of a new 20 per cent income tax rate was a sad retreat from the earlier attempt by Nigel (now Lord) Lawson to simplify the income tax and capital gains tax system. And his misleadingly presented raid on the pension funds was a notably unattractive retreat into fiscal opportunism. It undermined an entirely logical approach to the taxation of pensions. As with an expenditure tax, the tax bill on deferred income is not paid until savings are run down in retirement.

Retrospective penalty

Mr Kenneth Clarke can claim, not unreasonably, that his priority in his first budget was to deal with the huge hole in the public finances. Yet it cannot be right to spring technical tax measures on the ordinary taxpayer under the guise of an anti-avoidance measure and in a way that make a nonsense of individuals' assumptions about how they should plan their lives. While it may be difficult to retreat from the principle of partial de-indexation announced in the Budget, Mr Clarke should think again about the retrospective penalty implicit in making the new rules apply from November 30th.

Meantime the review of the taxation of savings now being conducted by Mr Stephen Dorrell provides the Treasury with scope to redeem itself on the shape of the tax system. The financial secretary should seize the opportunity to put the case for an expenditure tax onto the policy agenda. Among the many advantages of an expenditure tax is that it works on the basis of cash flow. It thus does not have to confront the impossible task of distinguishing between capital and income. The need to index capital gains disappears. A neat way, in fact, for Mr Clarke to confound the critics who claim that economic sophistication is beyond our Ken.

Lionel Barber examines the reception given Mr Jacques Delors' white paper at the European Union summit

A new lightness to his touch

Mr Jacques Delors can afford to smile today. His white paper on employment, growth and competitiveness received a better-than-expected reception at the European summit in Brussels; and there was the added satisfaction of seeing off most of his critics, including Mr Kenneth Clarke, the UK chancellor.

Here was a rare victory for the president of the European Commission after the setbacks of the past 18 months. Not for the first time, he carried the day with a combination of intellectual force and political cunning which papered over ideological divisions and produced a semblance of unity.

The test will come when EU leaders must deliver on the summit promise of an "action plan" which aims to strengthen Europe's declining competitiveness in relation to the US and Japan, while at the same time tackling the short-term unemployment crisis.

What is clear is that EU leaders no longer treat the white paper as an academic exercise. Last month, the number of people under 25 who were out of work in the EU reached 15.2 per cent, with 28 per cent in Ireland, 30 per cent in Italy, and 37 per cent in Spain. "There is the risk of a social explosion," admitted a senior Brussels official.

A glimpse of the potential for unrest came on the first day of the summit when thousands of Belgian trade unionists marched in the streets in protest against the package of wage freezes and BFr75bn (£1.39bn) of social security cuts put forward by the coalition government of Mr Jean-Luc Dehaene. Similar protests have taken place in Italy and Spain.

The chief advantage of the white paper is that these fragile governments can use it as "political cover" for unpopular measures at home. Its central message is that, while there are no miracle cures, there is safety in a collective approach.

In fact, the white paper eschews Brussels-led legislation in favour of a menu of non-binding options which take into account each member state's national needs, all within a framework of measured labour market deregulation, macro-economic stability and (relatively) modest spending on new infrastructure projects.

On this hands-off approach, a previously hostile Mr Clarke declared on Saturday: "It is an impeccable statement."

Mr Delors's new lightness of touch marks a further evolution in his thinking, away from the centralising tendencies which marked his early years as Commission president and which lay behind the drive for a single European market by 1992.

It also signals a shift towards the right in the debate over what might be called the future economic philosophy of the European Union. This debate pits the Anglo-Saxon model of labour market deregulation, wage restraint and curbs on trade union power against the more consensual model of social partnership which has underpinned the post-second world war economic order in Europe, but which is now under increasing strain.

By endorsing the white paper, EU heads of government have signalled a decisive tilt in favour of deregulation, toward the arguments which European industrialists have been putting forward with increasing firmness in recent weeks.

Thus summit leaders endorsed a lifting of restrictions on hiring and firing of workers. They recognised that wages for non-skilled workers must fall and they conceded that employers' social security contributions must be reduced in order to increase the attractiveness of hiring labour.

Two summit incidents point to a shift in attitudes. When Greek ministers complained about wage restraint, they found themselves under attack from the British, Dutch, Germans and no lesser figure than Mr Felipe González, the Spanish prime minister and one of Europe's leading socialists.

The second occurred in Mr Delors' own remarks, in which he noted the compatibility between the contents of the white paper and *Beating the Crisis*, the paper on competitiveness put out by the European Round Table, the forum for leading industrialists.

"The white paper is somewhat to the right of what Delors actually believes," said one aide, "but he realised that he had to make the shift in order to win support from the leaders."

Yet it would be a mistake to assume the Commission president has compromised on his core views. In the new age, he wants the right to permanent re-training and education to be universal; and he demands "solidarity" with the 40m people living in poverty in Europe. As he said before the summit: "I can change my opinions, but I will not change my principles."

Reuter

Jacques Delors: a rare victory after a very difficult 18 months

This partly forms the background to the most divisive arguments on the white paper: his proposal for borrowing up to Ecu20bn (£15.06bn) a year to help to fund trans-European transport and energy networks costing some Ecu250bn by the year 2000; another proposal for "information highways" for telecoms, priced at Ecu150bn; and one for Ecu174bn worth of environmental projects.

In the Commission's view, the private sector alone cannot cover high-risk, high-cost projects such as the high-speed train between Lyon and Turin; nor can the European Investment Bank, without a likely increase in its capital base. Hence the plan to raise Ecu8bn a year through "Union bonds", to be issued by the EU itself, with the EIB as agent.

The Delors proposal was an attempt to play on the heads of governments' inclination to offer a sweetener to the bitter medicine elsewhere on offer. Ever resourceful, he avoided following his French socialist colleagues calls for Community loans to create a New Deal-type public works programme for Europe. Instead he based his arguments on the Maastricht treaty's explicit provisions for trans-European networks based on the need to improve European competitiveness.

The argument that the development of trans-European networks has nothing to do with the white paper's goal of creating 15m new jobs by the year 2000 did not fool EU finance ministers, led by Mr Clarke and Mr Theo Waigel, his German colleague. Peeved at not being able to "fillet" the Delors paper themselves, the finance ministers complained, too, that the proposals for more EU-wide public borrowing ran counter to national efforts to curb budget deficits.

Some summit observers identified a "power-grab" by the Commission at the expense of the EIB, which is often criticised for being too slow on approving funding for major infrastructure projects. "Delors is trying to create a new investment bank in Brussels," said one European treasury official.

The compromise was to set up two groups drawn from national governments and industry to study trans-European network projects as well as the new information technologies, while remitting final decisions to the ministers of finance. "All these projects of Mr Delors are a dead issue," said a German official.

This judgment may be just as premature as the political obituries which were written for Mr Delors just over a year ago, before his native France voted narrowly in favour of the Maastricht treaty which he had defended. However much he may give the impression of carrying Europe's woes on his shoulders, he remains as inventive as ever in spotting the political trends of the future.

The question is whether, having unburdened himself of his magnum opus, it is now time to depart the Brussels stage, either to enter the campaign for the French presidency in 1995 or to take time off for the intellectual pursuits which he claims he misses.

On Saturday afternoon, Mr Delors betrayed irritation when asked whether the white paper was his "swan-song". If that was the case, he would have left long ago, he declared.

Inside the Commission, however, there is a distinct *fin de siecle* atmosphere. Mr Delors' authority is no longer what it was. With his final two-year term expiring in a year, successors are dusting off their credentials, including Sir Leon Brittan, the EU trade commissioner, who could be on the verge of clinching a Gatt world trade deal.

The Brussels summit showed that Mr Delors has lost little of his prize fighters instincts; but like all heavyweight champions he now must choose the moment to go.

Battle royal looms on health care

To anybody unfamiliar with Washington ways, it must seem baffling. In September, the Clintons finally launched their long-awaited healthcare plan. They were treated to standing ovations on Capitol Hill and rave reviews in the press.

And then? An embarrassed silence. As analysts waded through the 1,400 pages of text, doubts began to multiply. So did alternative proposals. To Mr Clinton's chagrin, many moderate Democrats (including the reformist Democratic Leadership Council) are backing a rival plan tabled by Mr Jim Cooper, a Democrat from Tennessee. Republicans, meanwhile, have put forward at least three different "market-oriented" proposals, based on the prescriptions of competing conservative think tanks.

Some of the deepest misgivings concern the role of the proposed "health alliances" or regional purchasing co-operatives. The idea is that everybody living in a certain area (except employees of very large companies) would have to buy healthcare through one of these intermediaries. The alliance would collect premiums from companies and individuals and use its market clout to strike advantageous deals with competing private sector "health plans."

If the alliances simply listed available health plans and acted as a clearing house for premiums, they might not be feared. But under the Clinton plan, these public or quasi public bodies would be local regulators of healthcare. They would be able to ban health plans regarded as too costly, set fee schedules for doctors and impose caps on the growth of insurance premiums.

To many Americans, this seems suspiciously like socialised medicine by stealth. Take the Washington DC area. Affluent K Street lawyers would not be amused to find themselves in the same health alliance as welfare mothers, especially as such an alliance would be a monopoly with vastly greater financial muscle than local doctors or hospitals. Whatever the Clintons say, people fear the alliances would give local bureaucrats too much power.

Controversy is also raging over the proposed "employer mandate" - the requirement that employers pay at least 80 per cent of the cost of a standard package of benefits for employees. The Cooper plan and the Republican alternatives are united in opposing such mandates.

The White House wants to make employers pay because most of the

MICHAEL PROWSE on AMERICA

big increase in health spending would then be "off-budget". Yet nobody is fooled: the mandate is a tax by another name and would tend to price workers out of jobs. When the principal goal of Clinton's economic strategy is to create jobs, it seems foolish to increase taxes on employers. A Heath-Robinson system of subsidies would lessen the burden on small companies, but only at the expense of seriously distorting labour markets.

Then there is the question of cost. The US already spends 14 per cent of gross domestic product on healthcare, against an average of 7.9 per cent in other industrial countries. Given his rhetoric about the economic strains imposed by galloping healthcare costs, you might have thought Mr Clinton would be trying to reduce spending as a share of GDP or at the very least prevent any further rise. By no means. The White House envisages the share of healthcare rising to a mind-boggling 17.5 per cent of GDP. The much-trumpeted "savings" are produced by an old Washington trick: comparing the reforms to "baseline" projections showing spending soaring to nearly 19 per cent of GDP.

Providing health cover for the 37m without insurance will be costly. But Mr Clinton did not have to aggravate matters by promising everybody a package of benefits at least aquivalent to those offered by Fortune 500 companies. Nor did he have to propose new benefits, for example for mental health and long-term care, that go beyond anything offered in the private sector.

The Clintons deserve credit for bringing healthcare to the centre of the political stage. Few legislators doubt that reforms will be enacted next year. But the Clinton plan is increasingly seen as a starting point for detailed debate rather than a blueprint to be rigidly followed.

Given the concern about costs, congressional leaders are likely to insist on a less generous package of minimum benefits. If health alliances survive, they will probably assume a less threatening form. Legislators, for example, could insist on a choice of at least two alliances in each area. They could allow smaller companies to opt out of alliances, say those with more than 200 employees rather than 5,000 as specified in the Clinton plan. And they could limit the power of alliances to regulate premiums or exclude health plans. Such amendments would create a purer form of managed competition.

As for the employer mandate, many Republicans are urging Mr Clinton to place the obligation to buy insurance where it belongs - on individuals. But while smoothly articulating the logic of an individual mandate, few are willing to countenance the level of personal subsidies (and hence new taxes) needed to make such a law credible. Mr Cooper, supported by libertarians, rejects any kind of mandate, arguing the goal should be universal access to care, not universal coverage. The Clintons, however, adamantly oppose such backsliding; their bottom line is "healthcare that can never be taken away". Forget skirmishes like Nafta and the budget: next year Bill and Hillary will be fighting the battle of their lives.

OBSERVER

Getting down to business

■ Thank you Jacques Attali! If the ex-boss of the European Bank for Reconstruction and Development had not enjoyed the good life so much, then his colleagues at bigger multinational institutions might still be enjoying one of the best perks of their job - first class air travel.

The International Monetary Fund and World Bank have decided that their staffs will have to give up flying first class and make do with business class. To prevent mutiny in the ranks, the executive directors, who represent member countries, will also be downgraded to business class.

There are, of course, exceptions. The World Bank exempts only its president, Lewis Preston, who is tall enough to need the extra legroom. At the IMF, however, Michel Camdessus, the managing director, and his department heads will still be allowed to travel first class.

So why did they do it? Preston and Camdessus are anxious not to be tarred with the same brush that swept Attali from office. "I think they both got fed up with it being the first subject that came up in any conversation," moans one ex-first class flyer.

Huw's next

■ The loss of all those first class air miles is especially hard luck for Huw Evans, the affable 52-year-old deputy secretary for overseas finance at Her Majesty's Treasury. He takes over as UK executive director at the IMF and World Bank next February, replacing David Peretz.

Evans was in the European Commission for six months in the early 1970s, and was the Hong Kong government's assistant economic secretary between 1973 and 1975. As under-secretary in the Treasury's overseas finance division, he was responsible for IMF and World Bank affairs in the late 1980s.

But his real claim to fame dates back to his time as head of the Treasury's forecasting and analysis division between 1980 and 1986. He won the "golden guru" award for sound economic forecasting - a plaudit that has eluded the Treasury in more recent years.

Blair blather

■ When is an agreement not an agreement? When France and the US sit across a negotiating table,

'Hand over your electronic cash'

if the Blair House shenanigans are anything to go by.

In American eyes, the agreement drawn up together with the European Commission in November 1992 could in no circumstances be renegotiated because they themselves had ruled that out from the start.

The French position, on the other hand, was that last year's talks had not resulted in an agreement in the first place, only a "*préaccord*". Hence the inadequacy of a mere "clarification" from their point of view.

But last week's Le Monde turned linguistic obfuscation into an art form with its "*reprofilage* [sic] *du préaccord agricole*". Even non-French speakers may marvel at the semantic sleight of hand.

Chocolate trifle

■ Tut, tut. When The Times asked Sir Adrian Cadbury, ex-chairman of Cadbury Schweppes and Britain's "Mr Corporate Governance", to take part in its series on "My Perfect Weekend", the industrialist made no bones about who would be his least welcome guest - Patience Wheatcroft, a city journalist who penned a not particularly flattering portrait of the great man a few months ago.

But when asked who would be his perfect companion, all Sir Adrian would say was that he was "open to offers". Presumably out of date now, given that The Times carried the announcement of Sir Adrian's engagement to Susan Sinclair a week before.

Shaloms all round

■ What a difference a handshake can make. From being the West's pet pariah, Yassir Arafat is now getting the red carpet treatment in London this week.

The latest in a long line of former "terrorists" to win recognition as a world statesman, Arafat is the UK foreign secretary Douglas Hurd's lunch guest on Wednesday.

The party continues with a meeting with John Major at No 10 Downing Street - which, under Margaret Thatcher, remained firmly closed not only to him but to his representatives. Further handshakes follow, with John Smith, Labour leader, and the Archbishops of Canterbury and Westminster.

But the biggest surprise of all concerns - as usual - Lady Thatcher. When the Palestinian Liberation Organisation's man in London, Afif Safieh, asked if his boss could call on her the reply was positively gracious.

It would be more appropriate, she said, for her to call on him, at his hotel. Which she is doing.

Newmarket lad

■ A small ad, tucked away in last Saturday's FT, gave a fresh insight into the high price of unemployment: Entrepreneur (excellent references) requires role in Technology business development. Simply inform me of a vacancy and receive £3,000 when I'm appointed. 4 Lowther St, Newmarket, UK.

FINANCIAL TIMES
Monday December 13 1993

European ministers begin work on 'action plan' for growth

Delors hails 'relaunch' of EU

By Lionel Barber and Andrew Hill in Brussels

More than 60 European government ministers arrive in Brussels today to begin enacting ambitious plans for reviving employment and growth in the European Union and to resolve internal differences over trade.

The plans were agreed at the Brussels summit which ended on Saturday with a semblance of political unity and praise for Mr Jacques Delors, president of the European Commission.

Leaders adopted Mr Delors' white paper on competitiveness, employment and growth as an "action plan" to pull Europe out of recession and tackle unemployment.

But the summit was overshadowed by disputes over how to meet French and Portuguese objections to a Gatt world trade deal under negotiation in Geneva. Foreign ministers hope to settle these matters at a meeting today in Brussels.

Mr Delors said the summit provided a "relaunch" of the Union's credibility and self-confidence similar to the spirit of the single market programme of the 1980s.

EU heads of government have tilted in favour of deregulation, towards the recent viewpoints of European industrialists.

The white paper eschews Brussels-led legislation in favour of a menu of non-binding options which take into account each member state's national needs, all within a framework of measured labour market deregulation, macro-economic stability and spending on infrastructure.

Today, EU finance ministers will begin discussing the technical aspects of the "action plan", in particular the macroeconomic guidelines for the next phase of economic and monetary union to begin on January 1.

EU leaders have charged finance ministers with assessing how to raise Ecu8bn ($9bn) a year of additional finance to fund trans-European networks in transport, energy and telecommunications.

The summit blunted European Commission hopes of being given the go-ahead to raise the money through an issue of "Union bonds". But Commission officials said the broad principle of spending on infrastructure had been endorsed by all 12 member states, including Germany and the UK.

EU leaders also agreed to hold a special meeting of foreign ministers on December 22 at which to put pressure on the warring parties in former Yugoslavia.

Editorial Comment, Page 21
Delors' light touch, Page 21
Summit reports, Pages 2 and 3

Conflicting pressures pose threat to Ulster peace pact

By Philip Stephens in London and Tim Coone in Dublin

Mr John Major, the UK prime minister, faced conflicting pressures from the Dublin government and the Ulster Unionists last night as the weekend murder by the IRA of two Northern Ireland policemen cast a shadow over the Anglo-Irish peace initiative.

Mr Albert Reynolds, the Irish prime minister, said that after their Brussels meeting he had agreed with Mr Major some "70 per cent" of the proposed joint statement which they hope may persuade the IRA to end its campaign of violence. That raised expectations that the two leaders could meet again this week to clear the remaining obstacles.

Officials from both governments worked through the weekend on the text, and Mr Major and Mr Reynolds plan to speak on the phone later today to assess progress.

As Mr Major consulted cabinet colleagues on the form of the declaration, Downing Street still appeared hopeful of a pre-Christmas accord

But the Irish prime minister gave a warning that he would not sign an anodyne declaration offering no reasonable prospect of a permanent end to violence.

Amid pessimism in Dublin on the prospects for a substantive statement, Mr Reynolds said guarantees for the Protestant majority in Northern Ireland had to be balanced with recognition of the nationalist aspirations of a large minority in Ulster.

The key differences now centre on self-determination and on Dublin's proposal for an all-Ireland convention involving all political parties, north and south. Mr Reynolds signalled in Brussels that he could accept a statement that did not explicitly endorse the "value" of eventual Irish unity. But Dublin's acceptance of a Unionist veto over any change in the status of Ulster had to be set in the wider context of Irish self-determination.

Irish government officials reaffirmed yesterday that Mr Reynolds "will not sign a statement that will not achieve the result of a cessation of violence". If agreement could not be reached, a pre-Christmas summit was unlikely.

Two leading members of the Ulster Unionist party directed blunt warnings at Mr Major and Mr Reynolds.

Mr John Taylor said any move towards a united Ireland would prompt his party to threaten the government's majority at Westminster by opposing it in any vote of confidence.

Mr David Trimble said Mr Reynolds, by taking on the Hume-Adams proposals, was talking about "surrender by stages" to the IRA. In particular, he ruled out the possibility of agreeing to a peace conference of all parties in the Republic and Northern Ireland. He flatly rejected making any concessions to Mr Reynolds' proposals.

The peace initiative was overshadowed by the shooting of two police officers by IRA gunmen at Fivemiletown in Fermanagh on Saturday. Several people were arrested and were being questioned.

EU and US accused of delaying Gatt

Continued from Page 1

the key stumbling block. "We have made tremendous progress over the day on every issue except one," Mr Kantor said. "We have not made progress in discussing the entertainment industry issue."

At the EU summit in Brussels, which concluded on Saturday, Mr Ruud Lubbers, the Dutch prime minister, said it might be necessary to "stop the clock" on the Wednesday midnight deadline for concluding the Uruguay Round. That followed adoption of a hardened EU position on audiovisual trade, textiles and demands by France and several other member states for tougher trade weapons.

In Geneva, Mr Sutherland dismissed the possibility of changing the deadline as "a misapprehension of the highest order".

Senior French officials believe the summit guidelines to EU negotiators to secure special and separate treatment for European cinema and broadcasting "both now and in the future," should be sufficient for the French government to get a Gatt deal through a National Assembly vote.

How that view might change if EU negotiators are forced to make fresh compromises was unclear last night, however.

Top telecom groups compete for European network deal

By Andrew Adonis

Five leading international telecommunications operators are to be invited to bid against each other for one of the largest service contracts ever awarded in Europe.

Eighteen blue-chip companies have formed an association to handle the contract, which is to supply a private "voice" network linking the west European offices of the participating companies.

The five operators to be approached are British Telecommunications; AT&T of the US; Sprint, a rival US carrier; Eunetcom, an alliance of the French and German state operators; and Unisource, an alliance of the Swedish, Dutch and Swiss state operators.

According to the FT's Telecoms Markets newsletter, companies in the user association are reported to include Rank Xerox, ICI, Du Pont, Philips and Shell. More than 30 companies are expected to be included by 1994.

Most of the companies have private networks linking their offices, but they expect the new arrangement will allow them to make big savings by creating a single pan-European network.

Laws protecting the monopolies of continental operators mean the companies will not be able to use the new network to communicate with each other. All "voice" telecoms contact between them will have to use the public networks until the European Union's liberalisation programme extends competition to basic "voice" services. That will not be until 1998.

However, the contract reflects the degree of competition already permitted and the readiness of multinationals to exploit it to the full. It will also intensify competition between rival alliances of telecoms operators formed to bid for such contracts.

Last week France Télécom and Deutsche Telekom launched an Ecu1bn ($1.14bn) joint venture to boost their Eunetcom alliance, and two weeks ago Unisource recruited the Spanish state operator as an associate member.

Russian voters back Yeltsin

Continued from Page 1

benches while a future government struggles with the economic crisis.

As expected, the north Caucasian republic of Chechnya took no part in the elections – and in Tatarstan, the major autonomous republic in the heart of Russia, less than 10 per cent of the population appeared to have registered any vote, calling into question its adherence to the constitution and foreshadowing a further battle over its own "sovereign" status, which it has refused to give up.

THE LEX COLUMN

Price is Paramount

Now that QVC has managed to get on to equal terms with Viacom through the courts, the struggle for Paramount is in the end game. In what is effectively an auction, the battle will turn purely on the level of the bids and the mix of cash and shares offered by each side. Yet spotting who is prepared to pay the most is impossible at present. Both sides are financially strong and have star-struck backers. Mr Barry Diller at QVC and Mr Sumner Redstone at Viacom are heavily committed and will be loath to flinch now. That suggests the bidding will go much higher, despite the giddy price already being asked for Paramount's assets.

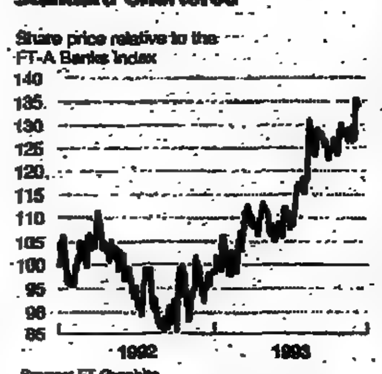
It is hardly reassuring that the deals are based on the kind of 'vision thing' which can so easily lead companies astray. The vertical integration of programme production with distribution channels is at least questionable. True, it has formed the basis of Hollywood's historical success. But owners of the much-touted information superhighways will need to pump as much programming from as wide a range of sources as possible to make use of their systems. Equally, programmes will need to be sold through several channels to justify production costs.

A more complex web may thus ultimately emerge. This phase of the revolution is primarily defensive, since distributors feel that they will be stronger if they own at least some of the programming. Mr Rupert Murdoch's early and economical purchases of Fox, BSkyB and Star thus look astute. But the risks to later entrants could prove serious.

Standard Chartered

Standard Chartered

Share price relative to the FT-A Banks Index



Source: FT Graphite

The rapid rise of Standard Chartered's shares, which have more than doubled this year, prompts a second look at the fundamentals. Part of the increase can be explained by the fact that Standard is a much more direct reflection of the Hong Kong economy than HSBC since the latter bought Midland. Its shares thus tend to track the Hang Seng index more closely. And earnings look likely to bounce strongly over the next couple of years. But it would be rash to rely too heavily on the third factor underpinning the shares: the prospect of lavish dividend growth implicit in a yield of little more than 2 per cent.

Standard's dividend, which was cut to 20p from 35p in 1990, costs less than £50m. The bank's tax rate is likely to fall as the Bombay provisions, which were not deductible, drop away. Together with buoyant earnings in Hongkong, that should ensure that the dividend is covered as much as four times this year. Standard could afford a striking increase in its payout and still retain the bulk of its earnings to fund future expansion. Bulls argue that the case has become even stronger after last week's preference share issue brought its tier one capital ratio close to 6 per cent.

Yet the mere fact that the bank is prepared to raise expensive capital in this way is an indication of its need for capital strength. Not only must Standard satisfy growing loan demand in Asia, where most of its profits are generated, it also requires an ample cushion to absorb the occasional accident that is bound to strike an institution with such extensive operations in developing countries.

Different arguments apply to domestic UK banks whose profits are also rising as provisions fall. With loan demand sluggish, they may not need much extra capital. Their generosity to shareholders may be correspondingly greater.

Coats Viyella

Recent trading worries from Dawson International and Courtaulds Textiles have worn a hole in the textiles sector, which has dropped 10 per cent relative to the market over the past six weeks. Both companies have had particular operational problems. But there also appears to have been a general clothing sales glitch in the UK as consumer nerves frayed ahead of the Budget. Groggy markets in mainland Europe have hardly helped.

Surprisingly perhaps, the sector's biggest stock, Coats Viyella, has held up reasonably well, even though a recent enhanced scrip dividend flooded the market with more shares. Coats is clearly not immune to the general forces affecting textiles and will be vulnerable to any trading wobbles in the UK, from where it derives 40 per cent of profits. Coats' business in mainland Europe, accounting for a further one-fifth of income, will also be hard hit.

Yet Coats boasts greater defensive strengths than other UK textile companies with a differing product and retail mix. Coats' thread sales should prove more resilient than those derived from garments. It is also capable of generating internal gains through integrating Tootal. An increasing exposure to India, China and Russia adds a dash of long term growth appeal, while its stock market reputation is still benefiting from the strides it has taken in improving strategic clarity and financial respectability. Such factors should ensure Coats' shares are not badly unpicked so long as it sticks to its knitting while recession lingers.

Germany

Since the Bundesbank looks likely to overshoot its money supply target for the third time in a row in 1993, it will doubtless take care to ensure that next year's target – to be announced on Thursday – is one it can actually achieve. That argues for at most a marginal tightening of the existing 4.5 to 6.5 per cent range, even though inflation has slowed and a fall in investment has limited the economy's productive potential. The Bundesbank has some room to juggle the numbers which go into the target. It is unlikely to deviate from its medium-term inflation target of 2 per cent, but enjoys discretion in the extent to which it allows for a slowdown in velocity.

Bonds might rally but the equity market would almost certainly react badly if the bank decided to shave more than half a point off the target range. A cut of up to that amount would do little to alter the pace of interest rate cuts. At least the bank should find it easier to control M3 next year. There should be no repeat of this year's ERM crises, while lower short-term interest rates should encourage investors to move further out along the yield curve. But being within the target may not in itself mean much. There have been seven years since 1985 in which the aggregate overshot. In four of them, the bank cut official rates just the same.

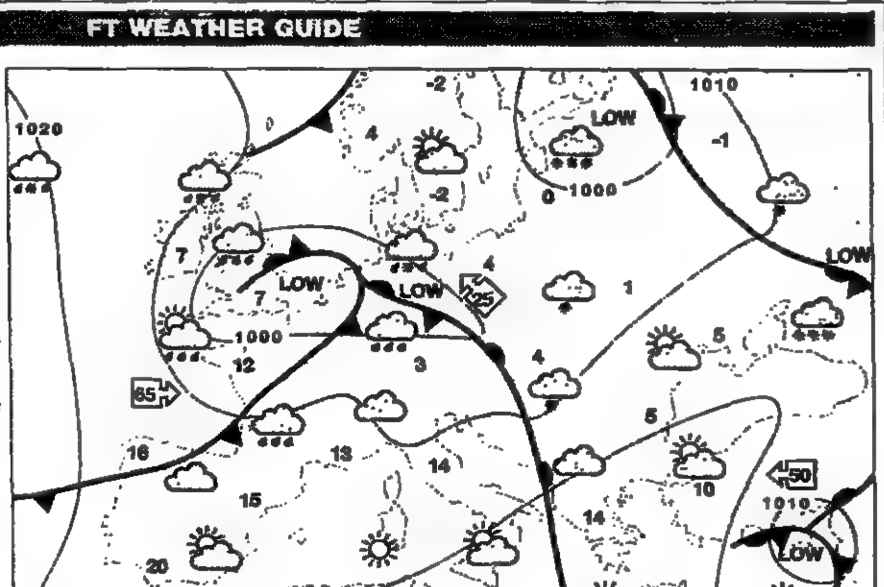
FT WEATHER GUIDE

Europe today

An area of rain associated with a depression over the UK will cover most of western Europe. The rain will be mixed with snow in northern parts of the Low Countries, northern Germany and the northern British highlands. Over eastern Germany and Poland, the rain will turn into snow during the day. Damp, cold winds will freshen to near gale or gale force in coastal parts of France and the south-western UK. Wintry conditions in northern Europe will begin to spread into the south. Clouds and snow showers will cover large parts of Scandinavia, but sunny periods will prevail in Sweden and central Norway.
Unsettled conditions will cover the south-eastern Mediterranean, with some snow in the Turkish mountains.

Five-day forecast

On Tuesday, wintry conditions will spread over the Low Countries, northern Germany and Poland as a strong depression moves over Germany. It will become unsettled from Wednesday.
A surge of milder air will push the coldest conditions to eastern and northern Europe. However, wintry showers will affect western Europe.
In southern Europe, it will be partly cloudy to sunny with showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Belfast	rain	5	Cardiff	rain	7	Frankfurt	rain	10	Malta	sun	18	Rio	thund	30
	Celsius		Belgrade	fair	9	Chicago	rain	7	Geneva	drzzl	7	Manchester	rain	5	Riyadh	fair	25
Abu Dhabi	sun	28	Berlin	snow	0	Cologne	rain	10	Gibraltar	sun	19	Manila	drzzl	30	Rome	cloudy	16
Accra	fair	32	Bermuda	rain	22	D' Salaam	fair	32	Glasgow	cloudy	4	Melbourne	drzzl	23	S. Frsco	cloudy	12
Algiers	fair	21	Bogota	cloudy	22	Dakar	fair	24	Hamburg	sleet	2	Mexico City	fair	19	Seoul	fair	1
Amsterdam	rain	6	Bombay	sun	34	Dallas	fair	19	Helsinki	snow	-7	Miami	sun	24	Singapore	drzzl	32
Athens	fair	14	Brussels	rain	9	Delhi	sun	27	Hong Kong	shower	22	Milan	fair	8	Stockholm	fair	-3
B. Aires	fair	29	Budapest	cloudy	3	Dubai	sun	27	Honolulu	cloudy	27	Montreal	sun	-1	Strasbourg	rain	12
B.ham	rain	5	C.hagen	fair	0	Dublin	rain	5	Istanbul	fair	10	Moscow	snow	-1	Sydney	fair	29
Bangkok	fair	30	Cairo	cloudy	21	Dubrovnik	fair	12	Jersey	shower	9	Munich	shower	7	Tangier	sun	19
Barcelona	sun	15	Cape Town	sun	26	Edinburgh	sleet	3	Karachi	sun	31	Nairobi	fair	25	Tel Aviv	shower	19
Beijing	fair	-4	Caracas	cloudy	26	Faro	sun	18	Kuwait	sun	25	Naples	sun	15	Tokyo	shower	16
									L. Angeles	fair	19	Nassau	sun	26	Toronto	fair	4
									Las Palmas	fair	22	New York	sun	8	Tunis	sun	20
									Lima	cloudy	24	Nice	sun	14	Vancouver	rain	9
									Lisbon	sun	15	Nicosia	shower	17	Venice	sun	7
									London	rain	7	Oslo	sun	-4	Vienna	cloudy	6
									Lux.bourg	rain	8	Paris	rain	11	Warsaw	cloudy	-1
									Lyon	cloudy	9	Perth	fair	26	Washington	sun	13
									Madeira	cloudy	18	Prague	sleet	3	Wellington	rain	20
									Madrid	fair	11	Rangoon	hazy	32	Winnipeg	snow	-7
									Majorca	sun	18	Reykjavik	cloudy	-2	Zurich	drzzl	8

هكذا من الأصل

هكذا من الأصل

FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 13 1993

William Hill debt refinance extended

By Maggie Urry in London

A meeting of the Brent Walker banks has given Standard Chartered and Lloyds Bank more time to complete the refinancing of William Hill's £370m ($551m) of debt.

The lead banks have repeatedly missed deadlines to agree a refinancing of the loans which are due for repayment on March 1. They are said to be still a long way short of raising the money.

However, one hardened follower of the Brent Walker saga noted that the banks had never met a deadline in the three years since the leisure and property group began talks with banks about a refinancing of the group.

Lenders to Brent Walker fear that if William Hill were sold, the parent company's future would be bleak. Brent Walker's refinancing, finalised in March 1992, was based on the retention of two cash-generating businesses, the Pubmaster pub chain and the betting shops. Disposals of other activities have been slow to materialise.

The Brent Walker board is believed to be anxious to retain William Hill rather than be forced by a failure to refinance into a float or sale of the betting shop business.

Meanwhile, the merchant banks appointed in August to sponsor a possible flotation of William Hill have been unable to begin the pre-marketing process considered essential.

It is understood that advisers, who had earlier said a decision on the float was necessary by the end of November, have now said it could be achieved if they get the go-ahead at the beginning of next year.

The William Hill syndicate is in a strong position to demand repayment since the business is worth considerably more than the debt.

Either a float, estimated to raise over £500m, or a trade sale for the £470m offered by a group of venture capitalists, would comfortably repay the loan.

While the William Hill lenders could be persuaded to wait a few weeks for repayment, that deadline cannot slip far beyond the beginning of March.

Banks criticise new Basle committee plan

By John Gapper, Banking Editor

Leading banks have stepped up their criticism of proposals from the Basle-based committee of international regulators to make them set aside additional capital to cover risks in foreign exchange, securities and derivatives trading.

A report from the Institute of International Finance, the Washington-based group representing 175 international banks, said the proposals would make it harder to compare banks' financial soundness.

It is the strongest criticism of the proposals on market, foreign exchange and interest risk which the Basle committee put forward this year to complement capital adequacy rules for credit risk.

Produced by a group including several banks most heavily involved in securities and derivatives trading, the report says a "significant weakness" of the proposals is that they could undermine the clarity of the capital adequacy framework.

Under this framework, banks must hold capital equivalent to 8 per cent of their assets weighted by credit risk. But the new Basle risk proposals could vary this figure depending on an individual bank's exposures in areas such as foreign exchange and derivatives.

The report suggests this problem could be eased either by banks disclosing the capital they must hold for each risk, or by market risk capital requirements being converted to the same formula as that for credit risk so a single capital adequacy figure is retained.

The report says a number of changes are needed to satisfy the aim of establishing a level playing field for banks trading in securities, derivatives and foreign exchange:

- Banks with better risk management systems than that proposed by the Basle committee should not have to operate parallel systems.
- Banking conglomerates should be allowed to consolidate risks and capital requirements across their trading entities.
- Banks should not have to report daily to supervisors on their risk exposures and capital position.
- Financial options should not be weighted by risk purely according to changes in the price of the underlying asset.
- Banks should not have to set aside capital to cover interest-rate risks which are already covered by market risk capital.

Mr John Haseltine, the institute's deputy managing director, said banks wanted to avoid having to duplicate risk management systems, which would place them at a cost disadvantage to securities houses or unregulated non-financial institutions.

The Basle proposals coincide with growing concern among bank regulators over the potential risks in derivatives trading.

The Markets this week

Starting on page 27

PETER MARTIN:
GLOBAL INVESTOR

As the Bundesbank meets to set next year's monetary policy, the outlook for the German economy and financial markets has rarely been less certain. Will 1994 see a brisk recovery in eastern Germany? Page 27

MARTIN WOLF:
ECONOMIC EYE

The Uruguay round of multilateral trade negotiations is at what is supposed to be a deadline. Pressures created by deadlines are the sole justification for an insane procedure. Page 27

Bonds:
How vulnerable would the US corporate junk bond market be to the sort of draught that would hit the financial markets from a jump in short-term interest rates? Page 28

Equities:
The prolonged squeeze on positions at big marketmaking houses means share prices will be forced up if US and continental European funds hit London again this week. Page 29

Emerging markets:
Istanbul has outperformed most emerging markets, but only if government finances are tackled can the market achieve new heights. Page 30

Currencies:
Speculation that the Bundesbank will cut interest rates is likely to mount. Page 39

STATISTICS

Base lending rates 39
FT-A World indices 39
FT guide to currencies 30
Foreign exchanges 39
London recent issues 39
London share service .. 39-41
Managed fund service . 35-39
Money markets 39
New int bond issues 28
World stock mkt indices ... 34

Andrew Baxter and Christopher Brown-Humes on the Electrolux-AEG deal

A chance to clean up in European white goods

When Electrolux of Sweden paid DM80m ($47.3m) last year for a 10 per cent stake in AEG Hausgeräte, the household appliances unit of Germany's struggling AEG industrial group, it set a poser for observers of the industry and rival manufacturers.

Was the purchase by Europe's largest producer of white goods – washing machines, dishwashers, refrigerators and cookers – a prelude to a full takeover of the AEG unit?

Or was it simply designed to cement a limited co-operation in manufacturing and product development while preserving the German company's independence?

Whatever the original intentions, Electrolux was last week offered the opportunity to buy the remaining 90 per cent of AEG Hausgeräte, as AEG, part of Daimler-Benz, launched a radical shake-up.

Less than 18 months after the original deal, a full takeover looks to be programmed into the Swedish multi-national's wash cycle.

If a deal is agreed, analysts believe it could cost Electrolux a further DM800m. The merger would be the most important takeover in the European appliances industry since Michigan-based Whirlpool completed the two-step, $1.1bn purchase of Philips' large domestic appliances business in 1991.

In white goods alone, a takeover would enable Electrolux to challenge Whirlpool, its most powerful rival, for the title of world's largest producer.

Whirlpool's sales last year, excluding financial services, were $7.1bn, identical to the combined white goods sales for Electrolux and AEG.

Whirlpool, however, produces only white goods, and if appliances such as vacuum cleaners are included, the combined Electrolux-AEG group would be comfortably the world's biggest appliances producer with pro-forma sales of $9.2bn last year.

Electrolux would also extend its leadership in the European white goods market, with a share of as much as 30 per cent, against 15-19 per cent for Bosch-Siemens of Germany, 11-15 per cent for Whirlpool Europe and 10 per cent for Merloni of Italy.

The development of market shares and companies of this size is due in large part to the rationalisation of the white goods industry over the past 20 years.

In 1970, 400 companies had 80 per cent of the European market, but soon only six or eight will control 80 per cent, Mr Vittorio Merloni, chairman of the Italian producer, said earlier this year.

The inexorable concentration of the industry has been driven by the need for global or pan-European manufacturing efficiency.

This "behind-the-scenes" rationalisation in humdrum areas such as component sourcing gradually frees companies to spend more on their sophisticated brand strategies, and to spread the heavy cost of product development over a wider sales base.

Electrolux foresees considerable benefits from a deal with AEG, in areas such as purchasing, research and development, logistics and warehousing. Electrolux will be able to supply AEG with compressors, for example, or motor fan units for vacuum cleaners, both of which the German group currently buys in. But the benefits of a takeover would go a long way beyond manufacturing and distribution.

The big players in the European white goods business each have two or three pan-European brands pitched at different types of consumers, and regional or national brands where appropriate.

Electrolux would be adding a third pan-European brand, AEG, to complement its Electrolux and Zanussi brands. While all three are well-known names across Europe, AEG is strongest in Germany and neighbouring countries, Electrolux in northern Europe and Zanussi in southern Europe.

In particular, the deal would give Electrolux an unrepeatable chance to boost its market share in Germany, one of Europe's big four markets along with the UK, France and Italy, to around 35 per cent.

Electrolux has about 20 per cent of the German market, but the majority of its sales are through Quelle, the big mail order company. Owning the AEG brand, along with the recently revamped Electrolux brand, ought to make it a much more powerful challenger to Bosch-Siemens, the market leader.

Impact of potential Electrolux-AEG merger

Clearly, Electrolux can make a lot more of the manufacturing and marketing synergies through a full takeover of AEG Hausgeräte than if it was to retain a 10 per cent stake – it has an option to acquire another 10 per cent, but that will probably be subsumed in the wider deal.

As Mr Anders Scharp, Electrolux chief executive, said: "Considering the possible synergies between Electrolux and AEG, as well as AEG's very strong position on many markets in the middle of Europe, we view an acquisition as strategically correct in the long-term."

And even though the AEG unit was profitable last year, it faces a better chance of developing under the ownership of Electrolux than as part of a company grappling with big losses in other businesses.

With a European white goods market share of about 6 per cent, AEG could easily have found itself caught uncomfortably in the middle of a polarising industry – between the increasingly powerful big boys and the many remaining niche players.

Probe may change life insurance tax affairs

By Andrew Jack in London

The UK life insurance industry may be forced to change the way it handles its tax affairs following a probe into the affairs of one of the largest companies in the sector.

Allied Dunbar, a subsidiary of BAT, confirmed yesterday that it was to present up to 20 separate reports to the Inland Revenue's Inquiry Branch at the end of January on a range of internal tax matters.

Since the Revenue approached it at the start of the year, the company has used six tax experts from accountants KPMG Peat Marwick on the investigation.

Mr Bob Gill, corporate affairs director, said one of the central topics covered is the treatment of "soft commissions", the in-kind payments of equipment and other goods made by stockbrokers and marketmakers in exchange for business.

A second is the way its 400 branch managers report tax on their share of the commissions paid to their sales teams, which can be up to 20 per cent of the value.

Inquiry Branch normally examines serious cases of alleged fraud or manipulation, but Mr Gill said this probe was on "technical" matters.

He said Allied Dunbar had resolved with Revenue officials over the summer a separate discussion on the way interest-free loans paid to its 4,500 sales staff during times of low commission, and this did not form part of the current investigation.

This week: Company news

DAIMLER-BENZ

Diet set to improve after grim build-up

Journalists invited to the Daimler-Benz press conference on Wednesday have been told they must fare without their traditional Christmas dinner and make do with "a concentrated dose of information".

The message is plain: the worst may be over for Germany's biggest industrial group, but there are still sacrifices to be made.

Most of the news usually garnered at the December conference is already out. Grim third-quarter results – making a DM2bn ($1.1bn) deficit for the first nine months – were released prematurely last month, and chairman Mr Edzard Reuter has already prepared shareholders for a reduced dividend.

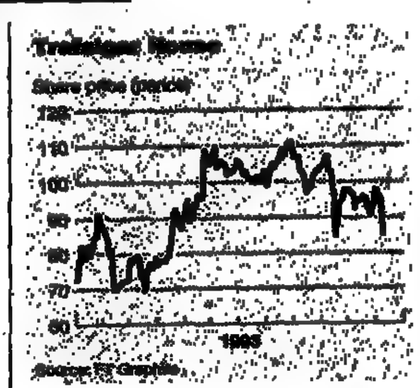
Subsidiaries Deutsche Aerospace and AEG have meanwhile launched restructuring plans, including sell-offs and shut-downs.

All of which leaves Mr Reuter free to focus on the good news, and fill out the hints he gave a month ago about "clear improvements" in the closing quarter and brightening future prospects.

The short-term outlook depends on Mercedes-Benz. The trusty cash cow has run dry lately, milked by recession, too-high manufacturing costs and provisions for job cuts, but Mr Reuter will make much of the successful introduction of the new C-class car and recovering markets in North America.

He will also seek to demonstrate that the measures undertaken at AEG and Dasa will bring them to break-even at the end of 1995.

And with any luck, Mr Reuter will be able to crown the proceedings with an announcement on the manufacturing site for Mercedes' planned small car. The selection of a German works, which would imply union acceptance of new – and far cheaper – working practices and conditions, could well be the news of the day.



TRAFALGAR HOUSE

A further sweeping of the decks

The new management at Trafalgar House is expected to undertake a thorough house-cleaning operation – including further extensive asset writedowns and provisions – when the troubled conglomerate reports its full-year results on Tuesday.

The group is now firmly under the sway of Hong Kong Land, which holds a 25 per cent stake and counts the chairman and finance officer among its board representatives.

Although Trafalgar is expected to post a small underlying profit, further provisions of up to £150m ($224m) are expected. The group took a £120m charge for restructuring and property write-downs at the interim stage.

After the provisions, Trafalgar's pre-tax losses for the year to September 30 may total £250m, compared with a £30.3m deficit last time.

It is generally assumed these will be the last write-downs, therefore marking a low point for Trafalgar's profits. However, the group's businesses, which range from engineering and construction to property and shipping, are still likely to lag the general economic upturn.

The market is also awaiting details of an expected £400m rights issue, designed to complete the repair of the balance sheet.

The company has already indicated that the total dividend for the year will be 3.25p, down from 6p.

OTHER COMPANIES

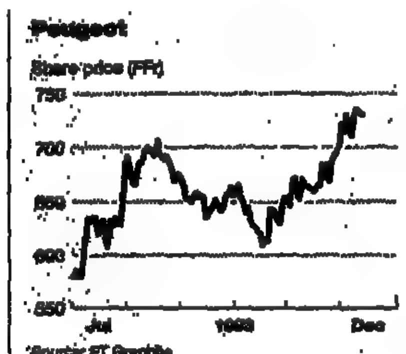
Air France to spell out cost cuts

Today Mr Christian Blanc, chairman of Air France, is due to unveil measures aimed at stemming losses at the state-owned airline. Mr Blanc, who took over in October following a bitter strike which prompted the departure of Mr Bernard Attali, is seeking to cut 2,100 jobs through voluntary measures. The airline is expected to report losses of about FFr7bn ($1.2bn) this year.

■ New York exchanges: On Tuesday the board of directors of the New York Mercantile Exchange is expected to vote on a plan to merge with the Commodity Exchange in a move that will unite New York's two largest commodities exchanges.

■ Eurotunnel: On Wednesday the Channel tunnel operator is scheduled to hold an extraordinary general meeting in London to approve a one-for-three rights issue to raise half the £1bn ($1.49bn) extra financing needed to cover the tunnel's costs until 1998, when it is scheduled to start breaking even. Eurotunnel is seeking the remainder from its bankers. By 1998 it estimates the total cash requirement for the project will total £10bn - £965m more than existing resources.

■ Credito Italiano: Investors who have applied for stock in the privatisation of Italy's seventh biggest bank will be told on Wednesday how many shares they will receive. As the issue has been almost seven times oversubscribed, allocations will be cut back sharply, and some of the stock due to be sold to foreign institutions may be clawed back to satisfy domestic retail demand.



■ Peugeot-Citroen: On Thursday Mr Jacques Calvet, head of the French vehicle group, will give his annual press conference. He will discuss the state of domestic and international car markets and prospects for next year.

■ US healthcare industry: The New York Society of Security Analysts hosts a seminar on the healthcare industry on Friday. Speakers will include Mr Argeris Karabelas, head of SmithKline Beecham's North American pharmaceuticals business, and Ms Jami Rubin, a drug industry analyst with Nomura Securities.

■ Asda: On Friday the UK's fourth biggest superstore group is expected to announce a substantial increase in first-half pre-tax profits to £75m-£85m ($126m), from last year's pre-exceptional figure of £46m. Analysts will be keen to hear more details of how the recent sale of the Allied carpet business to Carpetland will benefit Asda's cost structure.

Companies in this issue

AEG	23	Brent Walker	23	Ford	26
Allied Dunbar	23	Canadian Airlines	26	Johnson Matthey	26
Ambroveneto	26	Creditanstalt	26	MIM	26
American Airlines	26	Daimler-Benz	23	Nynex	26
				Renault	26
BCI	26	Electrolux	23	Trafalgar House	23

Prudential to double venture capital funds

By Andrew Jack

Prudential Corporation, the financial services and life insurance company, yesterday announced that it was to more than double the funds earmarked for venture capital investment to £500m.

The new allocation is a tiny proportion of the £60bn the Prudential holds under management, but could provide a substantial boost to the total funds available for investment in smaller companies as they emerge from recession.

Mr Paul Brooks, head of Prudential Venture Managers, said: "This probably puts us in the number one slot for cash available for investment in smaller companies. The Pru is saying we are open for business."

He said he expected the £500m would be spent over the next three to five years, and most would go towards management buy-outs in the UK. This year Venture Managers has only invested about £50m in new funds in capital venture.

Prudential currently has £210m of venture capital invested at cost, mostly injected over the past six years. It realised £110m from £40m invested at cost in the year to date.

Mr Brooks said the money would be diverted from the proceeds of investments across Prudential and would not be at the expense of any other single activity. He said his only target was to outperform returns on the FT-A All-Share index.

Venture Managers invests in companies capitalised within the £10m to £500m range, with most in the £20m to £150m range. It does not generally deal with start-ups, or with the insurance or property sectors.

Contract problems hit Triplex Lloyd

By Paul Cheeseright, Midlands Correspondent

Shares of Triplex Lloyd tumbled 11 per cent, from 144p to 128p on Friday after the industrial engineering group announced reverses at ED Hinchcliffe, the curtain walling company in its engineering division.

Losses of £2.3m at Hinchcliffe, caused by overshooting of costs on three contracts, meant that group pre-tax profits for the six months to end-September were cut by 56 per cent to £1.45m, against £3.31m.

The losses wiped out operating profits of the company's growing power and automotive divisions. The overall figures were ameliorated by the inclusion of property profits arising from the sale and leaseback of a Sterling International Technology plant.

Earnings per share dropped to 1.6p (4.8p). Nevertheless, the directors are maintaining the interim – and now uncovered – dividend at 3.5p, seeing the Hinchcliffe loss as what Mr Colin Cooke, chairman, described as "a setback against otherwise steady progress."

Problems at Hinchcliffe, detected as it reached the closing stages of the contracts and likely to drag the second half results down by £800,000, led to the postponement of plans for a new acquisition by the automotive division.

Triplex Lloyd has been investing in both its automotive and power divisions. With the disposal of Thermovitrine, a glass processor, it has started to sell its building products companies. Offers have been received for all of them except Hinchcliffe, where a severe restructuring is taking place.

Overall group turnover was virtually unchanged at £81.4m.

Hanson indicates the next chairman

By Maggie Urry

Hanson's annual report, published yesterday, spelt out for the first time that Mr Derek Bonham is expected to succeed Lord Hanson as chairman.

In his statement, Lord Hanson said "the appointment of Derek Bonham as deputy chairman indicates the board's succession plans".

Mr Bonham, chief executive since April 1992, was made deputy chairman last month, and the stock market had taken this to mean that he would succeed Lord Hanson, who is 71 and due to retire in 1997. Mr Bonham is 50.

Lord Hanson received a modest pay increase, from £1.35m to £1.36m, after suffering a cut from £1.53m in 1992.

The group also referred to a "tentative agreement" between the mineworkers union and the coal producers in the US, reached on December 7. It said, "hopefully this will lead to an end to the US coal strike". The strike, which began in February, cost Hanson £125m in the year to end-September.

The accounts show Hanson made provisions of £481m on acquisitions, most relating to Quantum Chemical Corporation which was bought on the last day of the financial year.

This was a much lower level of provisions than was made for the acquisitions of Beazer in 1992 and Peabody in 1990, which required substantial provisions for environmental and health related benefits. In 1992 provisions on acquisitions totalled £1.69bn and in 1990 they were £2.1bn.

There was a rise of £956m in provisions to £5.83bn, with exchange rate movements alone adding £823m to the total. Provisions utilised totalled £530m, partly offset by £199m of provisions set up during the year, most of which related to pensions and employee obligations.

Hanson maintained its £100,000 contribution to the Conservative party and £15,000 to the Centre for Policy Studies. It gave £3.3m to charity around the world.

Fund managers shift investments

By Andrew Jack

Fund managers are increasing their investment in UK and US equities at the expense of Japan and continental Europe, according to the latest Smith New Court/Gallup survey released today.

In a poll conducted last week of 85 institutions, 27 per cent said they would be increasing their holdings of UK equities in December, compared with none when asked in November.

The proportion planning to increase investment in US equities was 17 per cent, the first positive figure since February this year. Those institutions intending to raise their Japanese equity holdings fell from 17 per cent in November to 8 per cent this month.

Just 1 per cent said they would increase continental European holdings, compared with 21 per cent in November. Increased investment was most likely in French equities, and least likely for German shares.

The fund managers on average believed there would be further improvements to the UK economy over the next year, with the UK economy growing at 2.6 per cent and 2.7 per cent in 1995.

They forecast inflation of 3.3 per cent by the end of 1994 and expected base rates to be further reduced to 5 per cent in the same period. They predicted earnings per share would grow by about 15 per cent in 1994.

South African bank to invest £13m in Lloyd's

By Richard Lapper

One of South Africa's largest banks will today announce a £13m investment in a Lloyd's insurance subsidiary, providing a much needed fillip for the insurance market's initiative to attract corporate capital.

Amalgamated Banks of South Africa (Absa), a bank holding company with insurance interests, will invest about £6.5m in Absa Syndicate Investments (Absil), which will support about 12 syndicates with some £13m in capacity.

Mr Louw Van Wyk, managing director of Absa Financial Services, said the bank already had a long-standing association with Lloyd's through its insurance and broking activities.

Absil will work with the Wellington Members' Agency, one of the market's largest, which looks after the affairs of 600 Names. Mr Julian Avery, chairman of Wellington, said the Absa decision was particularly encouraging following the recent failure of a number of capital raising efforts.

Last Monday Salomon Brothers, the US investment bank, and Johnson & Higgins, the insurance brokers, announced the withdrawal of their London Market Investors vehicle, which had aimed to raise $300m (£201m) for Lloyd's.

Three UK trusts have also failed to gather support – Minories Investment Trust, Nelson Lloyd's Trust and Johnson Fry Corporate Insurance Recovery Fund.

Another US fund, Lutine Capital Corporation, has experienced difficulties in persuading enough US investors to support another $300m initiative and could fail to meet its minimum capital target of $200m by a December 15 deadline.

Overall however, investment trusts and insurance companies have committed more than £860m in capital to the Lloyd's market, with Lloyd's easily exceeding its initial target of £500m.

Absa was formed in early 1991, following an agreement to merge the interests of the former Allied, United and Volkskas banking groups.

Keller for market valued at £60m

By Tim Burt

Keller, the former engineering subsidiary of GKN, is planning to come to the market next year in a flotation valuing the company at £60m.

The specialist underground foundations business, acquired from GKN three years ago in a £26m management buy-out, aims to use the flotation to finance overseas expansion.

Projects in North America and continental Europe already account for more than 80 per cent of Keller's profits and the group wants to increase its share of the international construction market, particularly in Germany.

Kleinwort Benson, which is handling the flotation, expects a market launch in the spring, although the size of the share issue has not been decided.

Mr Jim Hamilton, head of corporate finance at Kleinwort Benson, said yesterday that fresh finance would enable Keller to exploit construction opportunities in east Germany, where large-scale infrastructure modernisation is under way.

The company is also understood to be considering an acquisition in the US, where it has a base near Chicago.

Strong international demand helped Keller to increase profits last year to £7.3m, up 65 per cent in the three years since the buy-out.

Winchester Multimedia issue

By Paul Cheeseright
Midlands Correspondent

Winchester Multimedia, formed seven months ago by a team led by Mr Gary Smith, is seeking to raise £1.34m by the issue of 2.5m new shares at 60p each.

The new shares will account for 32 per cent of the enlarged equity of the company which, on the basis of the offer price, will be valued at £4.56m.

The issue is sponsored by Allied Provincial Securities and JP Jenkins will make a market in the shares, providing deals on the basis of matched bargains under Rule 535(2) of the Stock Exchange.

The company is trying to build up a portfolio of intellectual property rights in the entertainment sector.

Sanderson scores 19% rise

By Alan Cane

Sanderson Electronics' success by proxy was boosted last year as Sheffield Wednesday, the football team it sponsors to the tune of £250,000 a year, reached the finals of both the FA and Coca Cola cups.

Now the company, a software house specialising in open systems applications, has scored a 19 per cent increase in pre-tax profits from £2.8m to £3.32m for the year to September 30 as the group achieved its 10th consecutive year of revenue growth.

Mr Paul Thompson, chairman, said the increase in profits had been achieved despite difficult trading.

Earnings per share rose 6 per cent to 25.4p (24p) despite a higher tax charge, and the dividend, already paid, is 9.9p (9p). The interim dividend for 1993-94 is unchanged at 5.4p.

Turnover was 10 per cent higher at £23.6m (£21.4m).

The company has now reduced its shareholding in General Automation of the US from 49 per cent to below 19 per cent and a further reduction is likely in line with Sanderson's strategy of concentrating on its core UK business.

Gearing has been cut to 90 per cent (147 per cent); interest fell from £461,000 to £267,000.

CROSS BORDER M&A DEALS

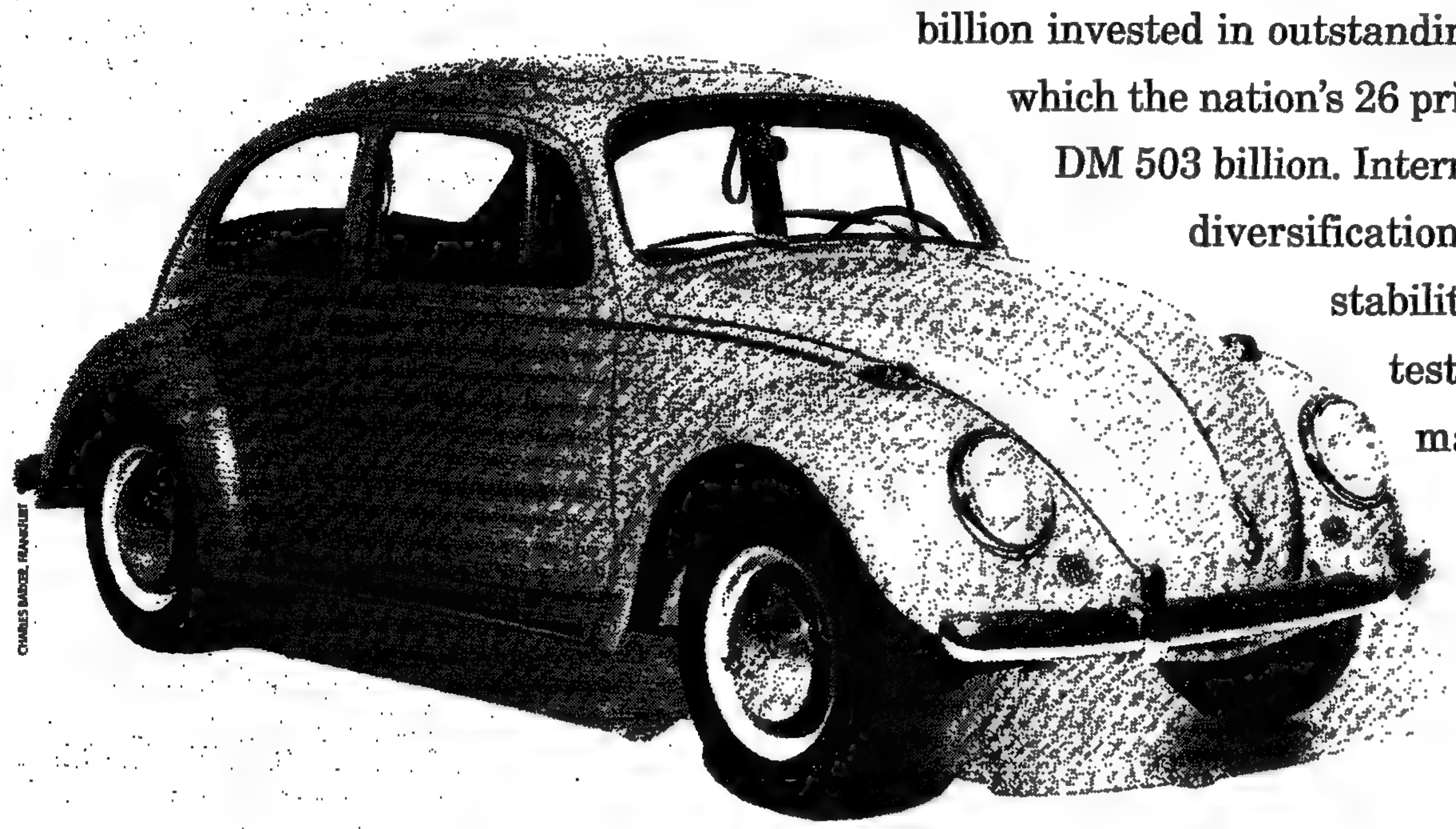
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
France Telecom (France)/ Deutsche Telekom (Germany)	Joint venture	Telecoms	£762m	First step in collaboration
Corange (Bermuda)	CellPro (US)	Biotechnology	£147m	Stake starts alliance
Embraco (Brazil)	Unit of Whirlpool (US)	Refrigeration	£70m	Buying partner's Italian unit
Accor (France)	Pannonia (Hungary)	Hotels	£38m	Accor holds 51% investment
Bridge Oil (Australia)	Assets of Santa Fe Energy Resources (US)	Oil & gas	£33m	Acquiring reserves
Bemrose Corp (UK)	McCleary-Cumming (US)	Publishing	£18m	Bolstering US presence
Laboratoire Chauvin (France)	Unit of Smith & Nephew (UK)	Ophthalmic solutions	£18m	Proceeds to cut debt
Samsung Corning (S Korea)	Fernsehglas Tschernitz (Germany)	Glass	n/a	Price set next year
Electrolux (Sweden)	Unit of AEG (Germany)	Domestic appliances	n/a	Part of AEG shake-out
Investor consortium (UK/US)	Mibrag (Germany)	Coal mining	n/a	Much investment promised

هكذا من الاصل

THE GERMAN PFANDBRIEF

SOLID VALUE FROM THE GROUND UP

When this classic example of German quality workmanship first came off the assembly line in 1945, the Pfandbrief idea in Germany was already 175 years old. Today, Germany's Pfandbrief system is still going strong, accounting for about 40 % of the entire fixed-interest securities market in Germany. This means about DM 832 billion invested in outstanding Pfandbriefe at year-end 1992, of which the nation's 26 private mortgage banks accounted for DM 503 billion. International investors seeking currency diversification have to be impressed with the stability of the D-Mark. And with the time-tested endurance and safety of Germany's Pfandbrief system. What's more, investors with very low risk tolerance have to like the fact that Pfandbriefe generally provide higher yields than German Treasury bonds (Bunds). Pfandbriefe in Germany are bonds of a special kind, issued to refinance mortgages or public projects. What makes them so special are the many requirements stipulated by Germany's Mortgage Bank Act. For instance, Pfandbriefe can only be issued by specially authorized banks which are also fully liable for each issue. They are secured by mortgages or by public-sector loans. They must carry backing of separate funds with at least matching yields and maturities. And all Pfandbriefe are monitored by a trustee designated by the state. The track record for safety? No investor has ever failed to receive 100 % repayment of a Pfandbrief held to maturity. To find out why some things improve with age, have a look at Germany's Pfandbrief system.



German Pfandbriefe are officially quoted on German stock exchanges. Issuers actively maintain a well-functioning secondary market.

SOME THINGS IMPROVE WITH AGE.

GERMANY'S MORTGAGE BANKS

DEPFA-BANK, WIESBADEN
BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
RHEINHYP, FRANKFURT
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
FRANKFURTER HYPOTHEKENBANK AG, FRANKFURT
DEUTSCHE CENTRALBODENKREDIT-AG, KÖLN
BAYERISCHE HANDELSBANK AG, MÜNCHEN

WESTHYP, DORTMUND
BERLIN HYP, BERLIN
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
HAMBURGHYP, HAMBURG
WÜRTTEMBERGER HYPO, STUTTGART
NÜRNBERGHYP, NÜRNBERG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER

BRAUNSCHWEIG-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
ALLGEMEINE HYPOTHEKEN BANK AG, FRANKFURT
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
NORDHYPO BANK, HAMBURG
BFG-HYPOTHEKENBANK AG, FRANKFURT
WL-BANK, MÜNSTER
HYPOTHEKENBANK IN BERLIN AG, BERLIN

Airline alliance closer as booking row ends

By Bernard Simon in Toronto

Canadian Airlines International and American Airlines have settled their dispute with the Gemini computerised reservations system, bringing the two carriers within reach of a long-delayed alliance.

With the threatened litigation no longer an issue, the link between American and Canadian now appears virtually assured of being consummated early next year. A Canadian Airlines official said that "it's down to the final details on Gemini".

Under the proposed alliance, which was first mooted two years ago, American's parent company, AMR, will inject C$246m (US$186.3m) into Canadian in return for a 25 per cent voting interest. A key condition of the deal is that Canadian sever its links with Gemini, and instead join the Sabre reservation system owned by American's parent, AMR Corp.

Canadian's attempts to withdraw from Gemini have, up to now, been strongly resisted by the other shareholders, Air Canada and Covia, a unit of United Airlines. They have contended that Gemini would be fatally weakened, leaving Sabre with a virtual monopoly of the Canadian travel market.

Mr Paul Nelson, Gemini chief executive, said yesterday many travel agents who use the system had urged it to settle its litigation against Canadian and AMR. The parties have agreed to keep details of the settlement secret.

Canadian and Air Canada last month appointed a mediator to help negotiate the terms of dissolving Gemini. The deadline for completion of the talks was extended earlier this week to December 20. Air Canada is expected to drop its objections to Canadian leaving Gemini in exchange for an agreement to rejig the two carriers' international routes.

Mr Ben Mikula, analyst at Midland Walwyn in Montreal, predicted that "there'll be a series of quid pro quos", with Air Canada gaining access to some of Canadian's lucrative trans-Pacific routes, and a rationalisation of the two airlines' trans-Atlantic flights.

AMR originally set a December 31 deadline for the deal with Canadian, but numerous delays have forced Canadian to request an extension. The financially-strapped airline also plans to ask governments and creditors for bridging finance.

Sale of Renault to go ahead as planned

By John Ridding in Paris

The privatisation of Renault will go ahead as planned in spite of the failure of its merger with the car and truck activities of Volvo of Sweden, Mr Gérard Longuet, the French industry minister, said yesterday.

In an interview on French television, Mr Longuet said the privatisation date would be set by the cabinet, but that it could still take place in the second half of next year.

The timing of the privatisation of the combined group was one of the principal concerns of Swedish investors, whose opposition to the deal forced Volvo to abandon the merger.

Mr Longuet said the collapse of the merger did not threaten Renault and that the state-owned car group "can live on its own". However, he added that Renault would continue to seek international alliances to strengthen its position in the world car market.

"The development of Renault's strategy was a matter for the car group's management, said Mr Longuet. "It is up to the company to establish its projects."

Mr Longuet also said the state was likely to retain between 10 and 15 per cent of the shares in Elf Aquitaine, the oil group due to be privatised early next year.

In the case of Groupe Bull, the loss-making computer manufacturer, Mr Longuet said the government would consider privatisation "when the horizon is clearer".

S Korea instructs telecom bidders to form consortium

By John Burton in Seoul

The South Korean communications ministry has ordered competing bidders for the nation's second cellular telephone project to form a single consortium to operate the system.

Foreign partners will be allowed a 20 per cent stake in the consortium, which will compete against the state-owned Korea Mobile Telecom (KMT).

But the government also decided last Friday to privatise KMT. The state-supported Korea Telecom, the country's leading telecommunications operator, will reduce its 64 per cent interest in KMT to 19 per cent by selling its shares to domestic companies.

The Federation of Korean Industries (FKI), the country's main business organisation, has been appointed to select consortium members within two months.

The second cellular telephone project was announced in 1991, and the government last year held a licence bid that involved six competing Korean consortia and 11 foreign partners, including British Telecom.

The licence was awarded to a consortium led by Sunkyong, the country's fifth-largest business group. Other leading contenders included Pohang Iron and Steel (Posco) and Kolon, a textile group. The Sunkyong bid was supported by the UK's Vodafone, GTE of the US and Hong Kong-based Hutchison.

But the government then rescinded the decision because critics charged that nepotism was involved in the selection process, since the son of the Sunkyong chairman is married to the daughter of South Korea's then-president Roh Tae-woo.

Controversy may continue over the new contract award since the FKI is headed by the Sunkyong chairman, Mr Chey Jong-hyon.

Analysts also believe the competing bidders may find it too difficult to co-operate on the project. If it proves impossible to form a consortium, the government will then select applicants and allot equal equity.

Telecommunications companies will be barred from participating in the consortium as part of an anti-monopoly policy. An independent management team will be appointed to operate the carrier without interference from the consortium's shareholders.

In privatising KMT, the government said that it would allow any one company to buy one-third of the carrier, which would give it management rights.

Ambroveneto to control Sicilian bank

By Haig Simonian

Banco Ambrosiano Veneto (Ambroveneto), a leading Italian bank, is extending into southern Italy by buying control of Societa Banche Siciliane, a small Sicilian bank.

Ambroveneto is paying about L85bn ($51m) for 69.2 per cent of SBS, held by Istituto Centrale di Banche e Banchieri. It will purchase a further 9 per cent from the minority shareholders who own the rest of the stock.

The acquisition will allow Ambroveneto, which is concentrated in northern Italy, to break into the underdeveloped Sicilian market. SBS has 29 branches and 300 employees across the island.

This purchase follows the acquisition last year of Citibank's retail banking operations, concentrated in the Naples area. Milan-based Ambroveneto has grown rapidly in recent years, and now has 500 branches nationwide.

BCI sell-off may be brought forward

By Haig Simonian in Milan

The Italian government is considering accelerating the privatisation of Banca Commerciale Italiana, one of the country's leading banks, following the strong domestic demand for shares in Credito Italiano.

The Credito Italiano deal involves the privatisation of the 67 per cent stake owned by the IRI state holding company. When allocations for the transaction, expected to be up to seven times oversubscribed, are made on Wednesday, retail applicants will be pared back to a maximum of 2,500 shares each.

Meanwhile, investors who sought to buy shares in the latter part of the application period, which closed ahead of schedule on Wednesday, are not expected to receive any stock.

The call to bring forward the BCI sale has been influenced by the strong interest in Credito Italiano and the pace of political developments in Rome. The original timing for BCI's privatisation at the beginning of April has been overshadowed by the growing chance that general elections will be held in late March.

Bankers have warned against scheduling the privatisation in the immediate aftermath of the poll. The election is likely to return a highly divided parliament and trigger a period of considerable uncertainty in Italian politics in the short term.

As a result, the government is thinking about bringing forward the deal to the second half of February. That would leave insufficient time for the planned simultaneous listing of BCI stock in the US, but would otherwise be technically feasible, according to one banker.

"The US listing could be done subsequently, and the likely reduction in US demand as a result will probably be immaterial in view of the strength of domestic retail interest in privatisations shown by Credito Italiano," he said.

The biggest obstacle to the new timing could come from a clash with the scheduled sale of Istituto Mobiliare Italiano, the big Rome-based financial services group.

The treasury is planning to sell up to 30 per cent of IMI's shares in early February 1994. Although BCI and IMI have markedly different specialisations, and the two privatisations are expected to appeal to differing investors, any attempt to sell the two banks almost simultaneously "could be more than Italy's privatisation programme could bear", said one banker.

Surprisingly, neither the government nor IRI appears to have considered bringing the IMI deal forward, or swapping it in the privatisation queue with BCI, which is likely to raise considerably more cash for the hard-pressed treasury. However, Mr Luigi Arcuti, IMI chairman, indicated at the weekend the bank might try to bring forward its privatisation.

Separately, IMI announced that net profits in the first nine months of this year were L376bn ($224m), while total assets at the end of September amounted to L72,430bn.

Johnson Matthey signs catalyst deal

By Tim Burt

Johnson Matthey, the precious metals and advanced materials group, is today expected to announce a joint venture to manufacture auto catalysts in Malaysia. It has signed an agreement with Hicom, the Malaysian government's investment arm, to build a plant to produce 1m catalysts a year by 1995.

Creditanstalt opens broker firm in Poland

By Christopher Bobinski in Warsaw

Creditanstalt, the Austrian bank which has invested Sch2bn ($167m) in developing its eastern European banking network since 1989, has opened Poland's first foreign-owned stockbroking house.

Mr Guido Schmidt Chiari, the bank chairman, said yesterday Creditanstalt thought Poland, the Czech and Slovak republics and Hungary would be "the growth area in Europe for the next few decades".

● Sweden's OM group has agreed with a consortium of Czech companies to set up an options and futures market in Prague. It is the company's second venture into eastern Europe since establishing a futures and options exchange in Bratislava in Slovakia earlier this year, writes Christopher Brown-Humes in Stockholm.

The new market will be called the Prague Options and Futures Exchange, and will allow investors in Czech companies to manage the risks associated with equity investments. The Czech Republic has a stock market with a daily volume of Kcs460m ($15m).

Nynex to reduce staff by 'several thousand'

By Patrick Harverson in New York

Nynex, the Baby Bell telephone company serving the north-eastern US, plans to cut "several thousand" jobs within three years. However, it denied reports that up to 22,000 of the 69,000 in its telecommunications division would go. It has already shrunk its payroll by about 13 per cent in the past two years.

Nynex said the company had made it clear that it intended to reduce its costs by between 30 per cent and 40 per cent before the end of 1996. The company has yet to put a figure on reductions required.

Most national and regional telephone companies have been cost-cutting or restructuring to survive an increasingly competitive environment.

Nynex is likely to face opposition from telecommunications unions over its plans to reduce its workforce. Yesterday, the president of the Communications Workers of America said the union would not tolerate any plan which forced employees off the payroll. In 1989, a dispute over wages and benefits led to a strike at Nynex that lasted 17 weeks.

MIM share sale played down

By Nikki Tait in Sydney

MIM Holdings, the Brisbane-based metals group, has played down the impact of last Thursday's sale of shares in MIM by the German Metallgesellschaft group. It said the commercial relationship between the two companies was expected to continue in the immediate future.

Ford promotes founder's great-grandson Edsel

By Patrick Harverson

Ford has appointed Mr Edsel Ford II, the great-grandson of the auto group's founder, Mr Henry Ford, a vice-president of the company.

Analysts said the promotion of Mr Ford, 44, and currently president and chief operating officer of Ford Motor Credit, the group's finance unit, suggests the management may be grooming him for the top job at Ford.

However, analysts said it was unlikely Mr Ford would succeed the current chairman, Mr Alexander Trotman, who is due to retire in the late 1990s. This was because of his lack of experience in senior management.

Mr Ford joined the company in 1974, and worked in product planning and marketing before taking over at Ford Credit in 1991.

Mr Ford has a good chance of becoming chairman because 40 per cent of the company's voting stock is controlled by the Ford family, and three members of the family sit on the board of directors. Fords have run the company for all but 13 years of its 90-year history.

هكذا من الأصل

The Markets

THIS WEEK

Global Investor / Peter Martin

Germany's monetary policy dilemma

The outlook for European financial markets over the next year hangs on Thursday's meeting of the Bundesbank council, which will set monetary targets for the year ahead.

The 1993 target range for the growth of M3, the broad measure of the money supply, is 4½ to 6½ per cent. In practice, M3 looks like ending the year up 7 per cent. That's no big deal: since 1975, says Ms Alison Cottrell of Midland Bank, the Bundesbank has hit the target in eight years and missed it 11 times.

Its council members are unlikely to see a half-point overshoot as a serious problem, especially as the German economy looks like diving back into recession for the next six months at least.

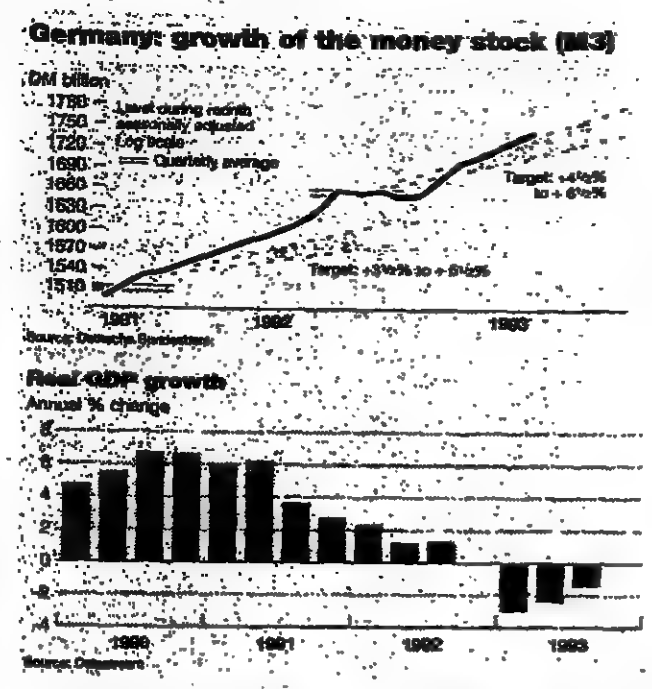
But they cannot yet be entirely relaxed about the threat of inflation. Though western Germany is stagnating, and companies are cutting back their workforces, inflationary psychology still lingers and wage demands are steeper than is consistent with long-term price stability.

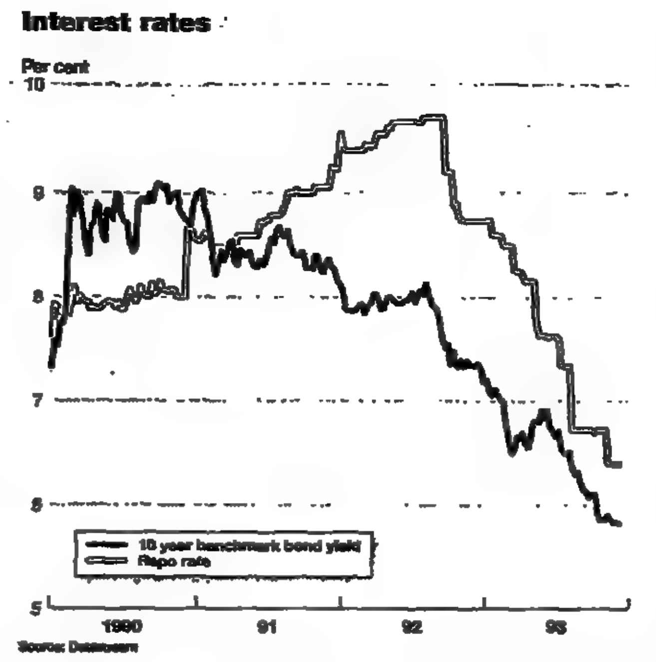
And eastern Germany is at last showing signs of recovery. One fund manager, just back from inspecting the vast building site in the east, calculates that the region is now adding ¾ of a percentage point to all-German GDP growth.

Even if the Bundesbank wished to, therefore, it cannot afford to neglect inflation. In particular, it must remain cautious about the weakening D-Mark, down more than 5 per cent against the dollar since mid-October, and now back more or less to its old ERM parity against the French franc. US long-term interest rates are once again higher than those in Germany, adding to downward pressure on the D-Mark.

That leaves the most likely outcome of the meeting a compromise: a lower M3 target range – perhaps 4 to 6 per cent says Ms Cottrell – accompanied by further steps towards monetary easing. These are likely to wait until after the expiry early in the new year of the fixed-rate repos designed to keep Europe's currencies calm over Christmas.

Further easing is now built into the markets' expectations. Any interruption of this process – if, say, the D-Mark hit an air-pocket – would have a damaging impact. For German equities, there is an extra uncertainty. After rising by half in just over a year, they now discount a sharp recovery in the earnings of Deutschland GmbH. If it fails to materialise on schedule – either because the Bundesbank goes slow on rate cuts, or because investors are simply expecting too big a bounce too soon – there could be a bumpy few months while reality catches up with expectations.





■ Seasonal factors

At this time of year, investors' thoughts turn to the season of goodwill: January. Traditionally, this is the month when stock markets rack up the best performance of the year, allowing the one-decision fund manager to go back to bed for the next 11 months.

Goldman Sachs reports that in Italy, the UK and Norway, for example, January turns in an average monthly return of about 6 per cent, while the other months of the year manage 1 per cent or less. Even the US, where the effect is less marked, shows January achieving a 3½ per cent return, while the other months average below 1 per cent. Only Germany remains immune. With Teutonic neatness, January's 1 per cent is no different from the rest of the year.

■ Mirror image

The woes of Japanese stockmarket investors have been obvious enough these past few weeks. Japanese fixed-income investors, however, have been laughing all the way to the bank. As the table alongside shows, 7 to 10 year Japanese bonds have achieved a total return of nearly 2½ per cent in the past month, outstripped only by the UK, while equities have lost nearly 6 per cent in total return terms.

For every fact, there is an analyst with a theory. And sure enough, Mr Alan Butler-Henderson, Baring Securities' new Asian strategist, says there has been an obvious pattern of "mirror image" behaviour between Japan's bonds and equities for some while.

"The occurrence in the spring of this year was particularly classic," he said last week. "As equities lifted into a sharp, 30 per cent surge, bond prices fell back quite abruptly." This autumn, the opposite has happened. He expects to see the pattern reverse again some time in the next few months.

You do not have to believe that theory to be struck by the divergence of performance between equities and bonds. It also fits, for example, with the belief that Japan is undergoing a far more serious deflation than the government has yet been willing to admit.

The wholesale price figures, due out on Tuesday, will show a 3 per cent decline on the previous year for the third month running. When prices fall this fast, bonds look a lot more attractive than equities.

■ Oil shock

Inflation has been given a further downward impetus around the world by the slide in the oil price, which has dropped by nearly a quarter in the last two months. Salomon Brothers' economists, peering at the outlook for inflation next year, have been disconcerted to discover that the drop in oil prices in the closing weeks of this year will make next year's inflation figures look worse, by depressing the base from which the year-on-year calculation starts.

Statistical quirks aside, the oil price decline, if it lasts, will be a further factor, they say, in helping restrain inflation throughout the decade in the US and Japan.

Europe will benefit too, unless governments' borrowing needs slip out of control. That risk is a real one: of the big European economies, says Salomon Brothers, only the UK has yet tightened fiscal policy enough to stabilise the ratio of debt to GDP.

■ No escape

Even if the Gatt talks end in agreement by Wednesday's deadline, world trade will not be out of the woods. If the US congress is to vote on the treaty as an all-or-nothing package, the participants must sign a detailed agreement by April 15 1994. Then congress could take months to come to a decision, with lots of opportunities for scares along the way.

■ Property reborn

There will be several important UK economic indicators this week – the November public-sector borrowing requirement, the figures for October's industrial production, and the inflation rate for November. One striking recent economic development will not show up in any of those figures, however: a shift in sentiment in the UK property market. Institutional investors, largely out of property since the 1980s, have been buying again with gusto. One big Scottish institution bought two shopping centres on a single day last week.

There is no sign yet that developers are stirring from their debt-induced hibernation. Still, the recovery of investors' optimism is the first step towards a rebirth of development activity. It now seems much closer than it did.

Total return in local currency to 9/12/93

	% change over period US	Japan	Germany	France	Italy	UK
Cash						
Week	0.06	0.04	0.12	0.13	0.17	0.09
Month	0.27	0.21	0.55	0.58	0.75	0.49
Year	3.88	3.53	7.88	9.19	13.56	6.75
Bonds 3-5 year						
Week	0.37	0.20	0.47	0.55	2.36	0.86
Month	0.39	1.32	1.14	0.97	1.25	2.14
Year	9.93	11.49	13.72	17.48	25.72	14.48
Bonds 7-10 year						
Week	0.93	0.86	0.88	1.40	4.14	1.29
Month	0.59	2.38	1.46	1.96	2.33	3.90
Year	14.72	15.29	17.86	23.98	37.85	21.41
Equities						
Week	0.3	-1.8	3.0	2.4	8.4	1.4
Month	1.1	-6.7	7.0	4.8	9.1	5.7
Year	9.3	11.4	46.4	31.5	50.0	25.7

Best performing stocks from FT-A World indices in local currency to 9/12/93

	Close	% change Week	Month	Year
DMIB Berhad	2.69 M$	26.3	29.3	97.8
Golden Hope Pltn.	3.74 M$	23.8	30.3	60.7
Banca Naz Agric.	3800.0 L	23.0	22.6	-12.2
Marriott Corp	9.38 US	21.0	41.5	136.5
Anglo American Corp.	193.5 Rd	20.9	34.4	110.9
Pelangi	2.59 M$	20.5	23.3	103.4
Malayan Banking	22.10 M$	20.1	24.9	110.5
Island & Peninsular	6.05 M$	19.8	26.0	72.9
Berjaya Ind.	4.26 M$	19.9	36.5	280.4
Meroplex	3.95 M$	19.0	21.4	278.2

Source: Cash & Bonds - Lehman Brothers. Equities - © NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Economic Eye / Martin Wolf

Uruguay Round may be Gatt's last hurrah

For the third time, the seven-year old Uruguay round of multilateral trade negotiations is at what is supposed to be a deadline. This time, the deadline is, we are told, a real one, honest it is. Whether or not this is the case, the round will be completed only if negotiators believe this is true.

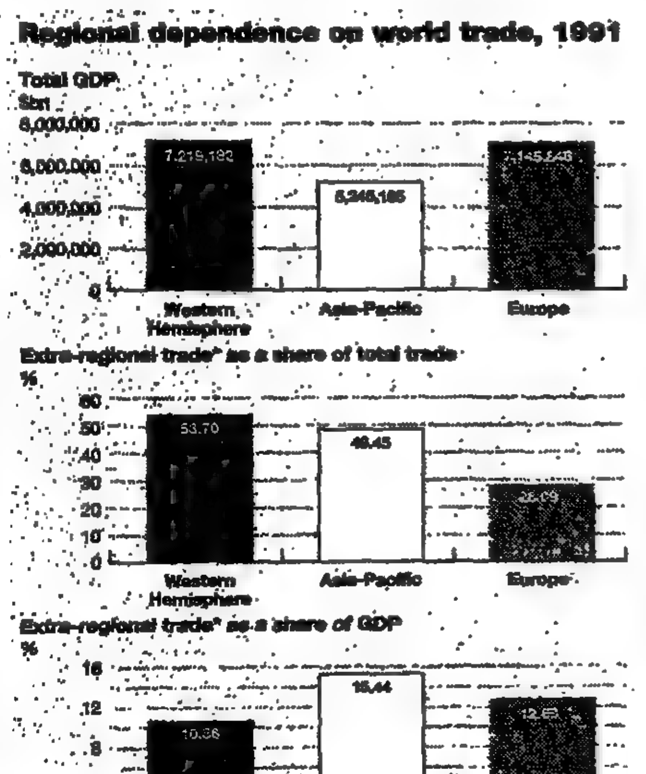
The pressures created by deadlines are the sole justification for what would otherwise seem an insane procedure. Why, after all, should the survival of the liberal trading system depend on whether sleep-starved trade negotiators can, like rats in a maze, reach their destination by December 15?

The usual answer is that if there were no deadline, they might still be talking a decade from now. Yet even though negotiators need to believe the deadline is a real one, it cannot be accepted as final, since the reasons for succeeding with the round would be just as strong on December 18 as two days earlier.

The case for success is also equally compelling for each of the world's three main economic regions, Europe, the western hemisphere and Asia-Pacific. While these regions differ markedly from one another, the chart shows that each of them has a roughly similar degree of dependence on extra-regional trade (defined here as exports plus imports) in relation to their total economic output.

As Robert Lawrence argued in an Amex Bank Review prize essay of 1991, this is a more relevant measure of the importance of extra-regional trade to an economy than the share of extra-regional trade in total trade.* The result overturns the conventional wisdom that Europe can afford to be the least concerned of the major regions over the success or failure of the round. By this measure, Europe's dependence on external trade is greater than that of the western hemisphere and not all that much less than that of the Asia-Pacific region.

The conventional wisdom about Europe rests on the fact that more than 70 per cent of the trade of European countries (including eastern Europe, but excluding the former Soviet Union) is with one another. By contrast, only about half of the trade of countries in the western hemisphere (north and south America) and the Asia-Pacific region (east Asia, south-east Asia, south Asia and Australasia) is with one another (see chart).



> **Without multilaterally agreed and enforced rules, every trade dispute can lead to bitter bilateral confrontation**

This contrast between Europe and the other two regions partly reflects the higher degree of intra-regional liberalisation in Europe. Far more important, however, is the dominance of the US economy within the western hemisphere and of Japan within the Asia-Pacific. In 1991 these two giants accounted for 78 per cent and 64 per cent of their region's gross domestic products (measured at market exchange rates), respectively.

By contrast, Europe's largest economy, Germany, generated only 22 per cent of Europe's GDP. Thus, much of what is counted as intra-regional trade in the case of Europe is internal commerce in the case of the US and Japan. No wonder roughly a third of total global merchandise trade was within Europe in 1991.

The European market is as essential to Germany as the US market is to California. But this does not mean that the world economy is unimportant either to Germany, within Europe, or to California, within the US. In particular, both possess technologically advanced economies that now face the challenge and the opportunity created by the rise of eastern Asia.

One reason the Uruguay round is important is that without multilaterally agreed and enforced rules, every trade dispute can easily lead to bitter bilateral confrontation. Another is that this may be a final chance to create such rules, since the round is quite likely to be the last one of its kind.

A negotiation that includes so many topics and participants is dauntingly complex. The only thing that has made finishing it even conceivable has been the dominance of the European Union and the US, which is unlikely to happen in the same way again.

> **If there are to be no more such rounds, an obvious question is what might come next**

If there are to be no more such rounds, an obvious question is what might come next. One possibility is liberalisation within discriminatory regional trading blocs. But this ignores the fact that the Asia-Pacific region lacks the political preconditions for successful regionalism. It also lacks the motivation.

Among the most important facts about the region is that it has both the fastest growing intra-regional trade and the fewest free trade areas. Between 1981 and 1991 the volume of merchandise trade among developing countries of east Asia grew at an average annual rate of 14.3 per cent, more than three times faster than world trade.

If it is unclear how the world might build on success, the consequences of failure are more evident. It would be a misfortune for every participant, particularly when considerable evidence already exists of the effects of increased protection in the 1980s, as Peter Sinclair of Oxford University has argued in a recent article.† Exhausted negotiators, please note.

* Robert Z Lawrence, *Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?, Finance and the International Economy: 5 (Oxford University Press, for the Amex Bank Review, 1991).*

† Peter JN Sinclair, *"World Trade, Protectionist Follies, and Europe's Options for the Future," Oxford Review of Economic Policy, Autumn 1993.*

WORLD BOND MARKETS: This Week

NEW YORK — Patrick Harverson

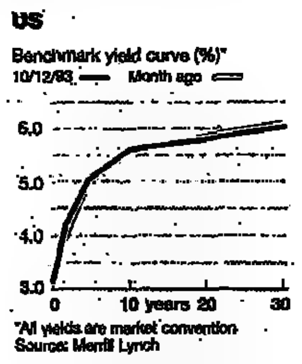
After last week's slightly worrying inflation numbers, and speculation that the Fed would tighten policy, the market will be watching for more signs that US economic growth is picking up.

Retail sales have been strong in recent months, but the latest monthly figures, released tomorrow, are expected to come in weaker than expected. This is because of the reports of poor sales issued by the large retailing chains throughout November. The consensus of analysts' forecasts is for a 0.5 per cent increase in sales during the month, a significant drop from the 1.5 per cent growth recorded in October.

Wednesday brings the November industrial production numbers, and analysts are looking for a 0.6 per cent increase in nationwide output for last month.

Although the monthly trade figures do not capture the attention of the financial markets in New York as they do in London, they are a useful indicator of domestic demand. Recent months have seen strong import growth and weak exports, but the trend is expected to be reversed.

On Friday, the November housing starts data are due. The residential property market has been surprisingly robust in the second half of this year, but analysts believe the rate of growth in housing starts in the southern states is unsustainable.



*All yields are market convention
Source: Merrill Lynch

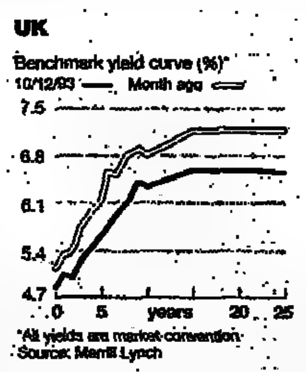
LONDON — Peter Marsh

The gilts market is looking for more evidence today of subdued inflationary pressures in the UK, with the announcement of the year-on-year change last month in wholesale prices of manufactured goods. The City expects a figure of about 3.7 per cent, compared with 4 per cent in the year to October.

A number close to this would fit in with the mood among bond investors that price pressures are unlikely to increase over the next few months. Such perceptions helped the gilt market to move up strongly last week, with prices of long-dated bonds rising about 2¼ points to follow the 3 point increase the week before.

More data about the UK's economic performance will come today with news of the volume of manufacturing production in October. The City is looking for a muted 0.3 per cent increase in output compared with September, a figure that fits in with sentiment that manufacturing industry is steadily recovering, although fairly slowly.

Heavy support for gilts from UK institutions and investors in the rest of Europe led to a successful auction of £3bn of 10-year gilts by the Bank of England last week. It was oversubscribed by a factor of two. The Bank also sold most of a tranche of £800m of assorted gilts which went on sale immediately after the auction.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — David Waller

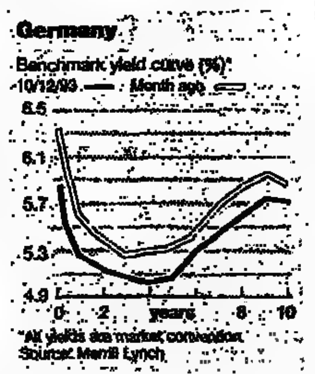
On Thursday the policy-making council of the Bundesbank meets for the last time this year.

Following the move earlier this month to set the securities repurchase agreement, or repo rate, at a fixed 6 per cent until January, the Bundesbank is not generally expected to announce further cuts in the discount and Lombard rates, now at 5.75 and 6.75 per cent respectively.

However, few economists are willing to rule out the possibility that the Bundesbank will move again on Thursday, if only because the market is not expecting such a move and the Bundesbank likes to maintain the initiative.

Also on Thursday, the Bundesbank will publish its target for growth in broad money supply for next year. It is unlikely to be substantially different from the 4.5 per cent to 6.5 per cent range set for the current year, but a much tighter band may set the markets worrying about further cuts.

With annualised, seasonally-adjusted M3 revised up to 6.9 per cent for October, it looks as though the Bundesbank will overshoot its target this year for the second year running. This would be embarrassing, in spite of the fall in inflation to an annual rate of 3.7 per cent in November, and the Bundesbank may be tempted to set a tighter target band.



*All yields are market convention
Source: Merrill Lynch

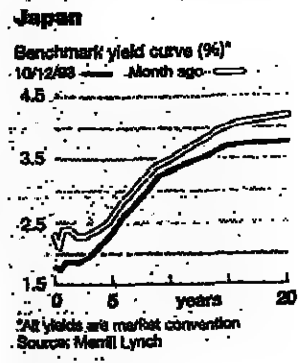
TOKYO — Emiko Terazono

Speculation that the government will be forced to rely on monetary measures to help the slumping economy due to the turmoil on the Japanese political scene, is likely to support the bond market this week.

Hopes of a cut in the official discount rate are mounting as the delay in the debate over political reform and disagreement over the lifting of the country's ban on rice imports among members of the coalition government, is preventing authorities from compile fiscal measures for the economy.

The damage to sentiment in the Tokyo stock market would be severe if the government postpones its announcement of additional fiscal measures widely expected this year, and could force the Bank of Japan to ease money market rates. Bond market investors expect the No 157 10-year benchmark bond, which fell through 3.2 per cent last week, to test the 3 per cent level over the next few weeks.

Such expectations are supported by further evidence of a worsening outlook for the economy. Following last week's Tankan – the Bank of Japan's quarterly report of business sentiment – which indicated weaker business confidence, economic indicators released this week are also likely to indicate the likelihood of lower long-term yields.



*All yields are market convention
Source: Merrill Lynch

Capital & Credit / Antonia Sharpe

Salomon Brothers regains its ranking

When the Treasury auction scandal hit the headlines in 1991, everybody in the Eurobond market believed Salomon Brothers had been dealt a fatal blow.

However, to the dismay of its competitors, in less than two years the US investment bank is back in favour with the biggest and most prestigious borrowers in the Eurobond market.

These have included the Republic of Italy's $5.5bn offering of global bonds, the largest global bond offering and capital markets transaction to date; the first Eurosterling offering for Depfa, Germany's largest mortgage bank, which raised £500m; and the World Bank's DM3bn offering of global bonds, the first global bond offering denominated in D-Marks.

Having fallen as low as 16th place in 1991 because of the drop-off in business, Salomon Brothers is likely to end this year in sixth position, the ranking which it held in 1990. It has also nearly doubled its market share – from 2.4 per cent in 1991 to 4.2 per cent this year – according to IFR Securities Data.


Steven Tye: conscious of pockets of scepticism

The irreversible trend towards a global market has certainly helped Salomon Brothers to recover its position in the market. Issuers wanting to broaden their investor base and diversify their funding sources have been attracted by its cross-border trading and distribution capabilities, as well as its in-depth knowledge of the various currency sectors in the Eurobond market.

"They give us a well-rounded picture and they can mobilise resources quickly on the new issue side," says an official at the Province of Ontario, for whom Salomon Brothers has lead-managed three out of four US dollar global bond offerings.

However, it appears that it was not only Salomon Brothers' trading muscle which pulled the firm back from the brink, but also a fundamental change in the way the firm wants to do business.

Galling though it was at the time, the scandal was probably one of the best things to happen to Salomon Brothers. This is because it was able to use those lonely months which followed to assess how to rebuild the firm's credibility and get rid of the brash image which developed during the second half of the 1980s.

"The scandal turned out to be an amazing and cathartic opportunity," says Mr David Karat, head of Salomon Brothers's debt capital markets group in London.


David Karat: keen to promote Salomon's new image

He had only joined in 1990 to beef up the firm's primary fixed-income business. At that time, its investment banking division had virtually abandoned its coverage of borrowers in the Eurobond market and was concentrating instead on mergers and acquisitions.

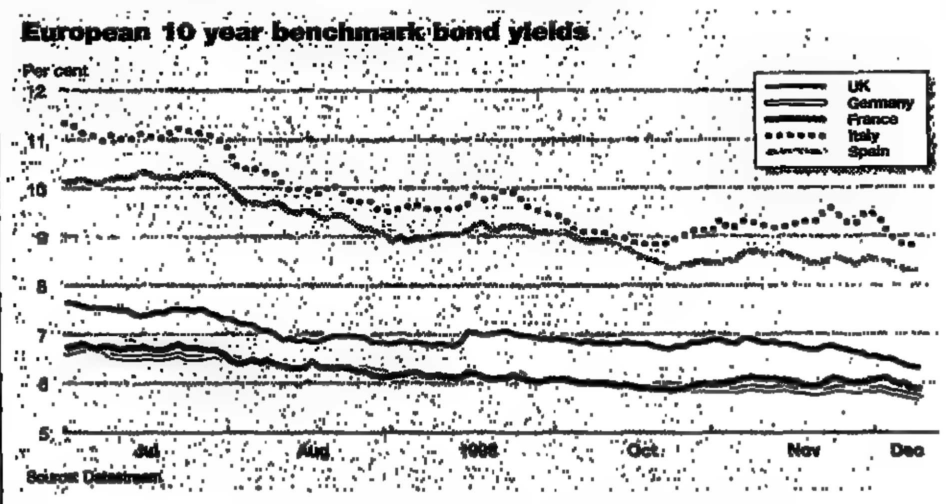
Apart from his bright blue braces, the 42-year-old English lawyer turned investment banker could not be more different from the characters immortalised in Liar's Poker, the best-seller about Salomon Brothers.

Softly-spoken and urbane, Mr Karat goes to great lengths to promote Salomon Brothers' new, chastened image. The words "relationships" and "commitment" crop up frequently when he talks about the firm's future.

Mr Steven Tye, who joined Salomon Brothers as a money market trader in 1983 and who is now head of the fixed-income syndicate in London, is conscious of the pockets of scepticism which remain in the market.

He is the first to admit that over the years Salomon Brothers did not think twice about pulling out of markets when they lost their attractions. However, he believes that the firm's philosophy has changed and that it wants to make up for the short-termism of the past.

European 10 year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	US	Japan	Germany	France	Italy	UK
Discount	3.00	1.75	5.75	7.00(?)	8.00	5.50
Overnight	2.91(?)	2.20(?)	6.06(?)	6.62(?)	9.25	5.75(?)
Three month	3.12(?)	1.90(?)	6.40(?)	6.37(?)	8.43	5.25
One year	3.61	1.75	6.13	6.50	8.42(?)	4.94
Five year	5.10	2.22	5.12	5.61	8.87	5.63
Ten year	5.80(?)	3.00	5.76	5.84(?)	8.84	6.55(?)

(†) Reference rates. [illegible]

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	117-16	116-24	-0-26	117-30	116-23	11,391	66,876
Mar	116-10	115-17	-0-27	116-23	115-15	372,156	238,334
Jun	115-14	114-15	-0-28	115-20	114-15	789	9,788
Sep	114-14	113-16	-0-28	114-19	113-17	817	14,222

UK GILTS PRICES

Notes	Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
"Shorts" (Lives up to Five Years)						
Treas 8½pc 1994	100⅛	-.1	2,100	Au3 Fe3	28.6	4871
14½pc 1994‡‡	102⅛	-.2	650	Sa1 Mr1	28.7	1307
Exch 13½pc 1994	103⅛	-.1	1,100	Oc27 Ap27	20.9	1287
Treas. 10pc Ln. 1994‡‡	102½	—	1,900	De9 Je9	2.11	1284
Exch 12½pc 1994	106⅛	-.1	1,240	Fe22 Au22	16.7	1283
Treas 9pc 1994‡‡	103⅛	0.1	1,900	My17 Nv17	11.10	1343
[illegible]						
Treas 11¾pc 2001-4	128⅛	1.0	1,820	Se19 Mr19	13.8	1290
Funding 3½pc '99-4	84⅞	1.6	543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004	123⅛	1.1	3,412	Ap25 Oc25	20.9	1246
Treas 6¾pc 2004	103⅛	1.0	3,250	My26 Nv26	–	–
6¾pc 2004 A (£50 Pd)	52⅛	0.8	3,000	Mr26 No26		–
Conv 9½pc 2005	122⅛	1.1	4,842	Oc18 Ap18	13.9	1247
[illegible]						
Index-Linked (b)						
Treas. 2pc '94 (102.5)	136⅛	—	500	Nv16 My16	11.10	5070
2pc '96 (67.9)	204⅛	0.5	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡ (135.6)	113½	0.4	800	Ap27 Oc27	20.9	–
2½pc '01 (78.3)	174⅛	0.7	1,350	Mr24 Se24	18.8	1316
2½pc '03 (78.8)	171⅛	0.7	1,050	Nv20 My20	14.10	1317
4⅜pc '04‡‡ (135.6)	118⅛	0.9	800	Ap21 Oc21	14.9	–
[illegible]						

Other Fixed Interest

[illegible]

International / Richard Waters

US junk bonds stay on the level

The US corporate junk bond market has proved remarkably stable during the recent period of bond-market volatility. A sharp retreat in bond prices in October and November did little to disturb the pace of capital-raising in a market which grew at a record rate this year.

Yet, how vulnerable would it be to a jump in short-term interest rates?

The primary junk bond market has been thriving all year: with the pace of new bond issues still continuing strongly, the total sold for this year is likely to top $75bn.

It is not difficult to see why sub-investment grade bonds have proved so popular. The US yield curve may have flattened with falling long-dated bond yields (the spread between three-month and 10-year notes began the year at 354 basis points and is currently at 264 basis points), but with three-month rates little over 3 per cent, that still represents a considerable pick-up.

Also, yield spreads on junk bond issues have remained roughly constant through the year, at 200-400 basis points for a double B credit and 400-600 basis points for a single B. The effect of 3 per cent short rates is to magnify the attraction of these premiums: why invest short-term for next to nothing when a junk bond fund is yielding 9 per cent or more?

Against this background, the bond market's slight attack of nerves earlier this autumn caused little concern. At the beginning of September, the bonds in Merrill Lynch's sub-investment grade index yielded 437 basis points over 10-year Treasuries: by the beginning of December, that spread had fallen to 398 basis points.

Specialist mutual funds have been the main buyers, although the high yields available have attracted a far wider range of investors than is generally perceived. Of the $75bn of bonds issued this year, roughly a third account for refinancing of old issues. Of the rest, around $15bn represents new money from high-yield mutual funds.

The remainder has been bought by a broader range of equity and investment-grade bond funds looking for a kicker to boost their yields this year. Also, money managers handling pension plans are reported to be showing an increasing interest. This all suggests that the market has developed a broader base this year, giving it greater stability.

It has also developed a broader platform of issuers and intermediaries. A number of commercial banks, including Citibank, Chase Manhattan and Chemical, have joined the growing list of investment banks in the market. The aim is to give customers access to credit markets as well as to bank lending, says Mr Nick Daifotis, head of high-yield debt at Chase, which this month led its first junk bond issue.

But how vulnerable will this market prove to a rise in short-term rates? Junk bonds have much in common with equities: an improving economy and low short-term interest rates boost the perceived credit quality of junk bond issuers, helping them to outperform investment grade paper.

During September, fully a 10th of all outstanding junk bonds – led by carmaker Chrysler – were reclassified by Moody's as investment-grade, says Mr Martin Fridson, a junk bond expert at Merrill Lynch. "There's a substantial equity component [in junk]," he says.

That suggests these bonds would be susceptible to the same forces on the downside as equities – and that a rise in short-term rates could hit sub-investment grade paper with considerable force.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Union Asia Finance(a)§	75	Dec.2003	3.375	100.00	-	-	Nikko Europe
Nankai Electric Railway(d)§	300	Dec.1997	1.625	100.00	-	-	Daiwa Europe
Jukils Develop(e)§	60	Dec.2003	4.25	100.00	-	-	CS First Boston
Hon Kwok Land Treasury(f)§	50	Dec.2000	4.875	100.00	-	-	Nomura Intl. (HK)
JG Summit (Cayman)(b)§	260	Dec.2003	3.50	100.00	-	-	Salomon Brothers Intl.
ISIS (Cayman Is.)(t)‡	630	Dec.1995	(i)	100.00R	-	-	JP Morgan Securities
[illegible]							
Republic of Ireland	10bn	Jan.2004	3.75	100.10R	3.738	+26(4.1%-03)	Daiwa Europe
Mazda Motor Corp.(p)	10bn	Mar.2002	4.05	100.20R	-	-	Daiwa Europe
FRENCH FRANCS							
SEC(t)‡	500	Jun.2003	(i)	104.85R	-	-	Banque Paribas
Crédit National(j)	300	Jan.2002	5.75	99.612R	5.780	+14 (9½%-01)	Crédit Lyonnais
CANADIAN DOLLARS							
[illegible]							

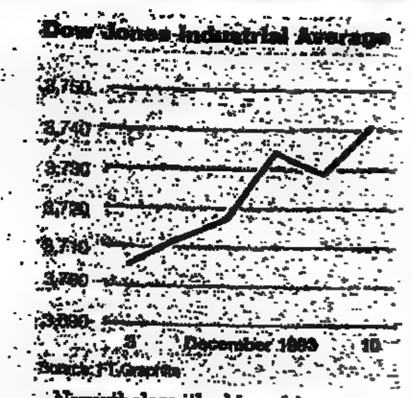
[illegible]

هكذا من الأصل

EQUITY MARKETS: This Week

NEW YORK
Frank McGurty

Investors keep their feet on the ground



The New York Stock Exchange trudged ahead last week, leaving the Dow Jones Industrial Average at an all-time high of 3,740.67, for a gain of 36 points on the week. But few investors are ready to kick up their heels, even though the air is thick with glad tidings on the economy. The advance was narrowly based and small-capitalisation technology issues on the Nasdaq were battered.

Ironically, the subdued mood is perhaps the best reason of all to celebrate this Christmas. Over the past month, analysts say the market has plodded along without stumbling largely because its abiding caution has restrained any temptation to sprint ahead of itself.

After the November downturn, Wall Street is still haunted by "fear of give-back," as Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette in New York, puts it. That fear has subsided over the last fortnight, thanks to the rebound in bonds. "But it hasn't been replaced by any firm conviction either," he says.

For many, the market is just too good to last. Amid the longest rally without a 10 per cent correction in the market's history, the hand-wringing intensifies with each passing week.

However, investors need not trawl through the annals to find grounds for scepticism over the market's durability. In the fourth quarter of last year, economic growth exceeded 4 per cent, only to fall back to anaemic levels in the first half of 1993. With all indicators pointing to growth of 4 to 5 per cent in the current quarter, the market can be forgiven for feeling a sense of *deja vu* this Christmas.

Nevertheless, the blue chips are likely to keep plodding ahead, unless the newly-resilient bond market suddenly loses its bottle. But US Treasuries, which held fairly steady last week in response to favourable data on November producer and consumer prices, should offer less distraction for equities this week and next. Most institutions are believed to have closed their books for big trades until the new year and no market-moving readings on the economy were due out this week.

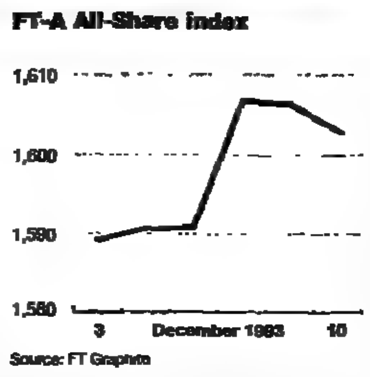
In turn, a small – perhaps significant – shift in the sentiment may be under way, despite investors' continued concern over the high valuation of stocks and mounting apprehension about a rise in short-term interest rates.

Last week's activity suggests equities are just beginning to decouple from movements in the bond market for the first time in many months. In every bull market, says Mr James Solloway, director of research at Argus Research in New York, "there comes a time when you can no longer depend on low-interest rates to bring stock price increments".

That time, he says, may have arrived. Last week, the Dow was strong because of gathering strength of cyclical stocks. That suggests a tilt towards longer-term confidence in the economy. Advances by paper, metal, car and chemical stocks, which lagged the rest of the market over the past year, were encouraging.

LONDON
Terry Byland

Surprises lurk in extended trade account



The Christmas season opens formally on the UK stock market this morning with the traditionally extended equity trading account which covers the holiday period. This week, far from offering opportunities for relaxing lunches and evening parties, could deliver further surprises.

The extreme squeeze on positions at the big marketmaking houses, following a rise of nearly 6 per cent on the FT-SE 100 Index over the Budget account – and a not dissimilar performance on the FT-SE Mid-250 Index – has not been significantly relaxed.

Quite apart from inflicting further pain on marketmakers' pockets, the prolonged squeeze implies that share prices will be forced sharply higher if US and continental European funds hit London again this week.

The squeeze has shown itself most strongly in the banking sector, where account gains in Lloyds, Barclays and above all in Standard Chartered, range from twice to more than three times the gain on the market. Marketmakers' attempts last week to cut prices to attract stock were brushed off by investors also determined to pick up what they saw as cheap shares.

The second technical factor making for a perilous market this week will be the expiry on Friday in stock index futures. The December contract on the Footsie has made the running since its sudden recovery just ahead of the Budget disclosed that the big investment funds, at home and overseas, were taking a positive view of UK equities.

The December contract has to be at parity with cash at around 10.15am on Friday; indeed, by rights, it should have been there by the end of last week. Fund managers have been rolling futures investment forward into the March contract, but the specialists believe that around half of the 40,000 or so existing open contracts have still to be rolled forward.

With March moving to a strong premium against the cash market, as well as against its fair value calculation, this futures settlement looks like another pistol at marketmakers' heads. To make matters worse, many arbitrage positions between cash and futures remain open; fund managers are effectively kept out of arbitraging by stamp duty costs, so the big marketmaking houses will again bear a heavy share of this burden.

Broader factors which could set London alight include any move on interest rates at the Bundesbank council meeting on Thursday, or the more likely announcement of a favourable ending to the Gatt world trade talks. The UK stock market followed European markets closely last week and the arrival of lower interest rates in Germany, although hardly unexpected, would make a fine Christmas present for Footsie followers.

This focus on the blue-chip stocks should not distract from the second-line issues. The FT-SE Mid-250 Index is largely free from the influence of the stock index futures market and has risen to new peaks as investors search for the leaders in a stock market still firmly fixated on growth.

OTHER MARKETS

The successful passage of the Gatt trade agreement this week is already factored into the markets. However, Mr Sushil Wadhwani of Goldman Sachs cautions that last-minute compromises in the fine print during the rush to meet Wednesday's deadline means there is still scope for disappointment.

FRANKFURT
The Bundesbank council meets for the last time this year on Thursday when it will set M3 targets for 1994. Hopes that the opportunity will also be taken for another cut in the discount rate are viewed by analysts as unlikely to be fulfilled.

Viag's extraordinary shareholders' meeting tomorrow should clarify the merger conditions with Bayernwerk.

Nine-month figures from Daimler on Wednesday are expected to show a DM2bn ($1.10bn) loss, after the DM949m deficit at the half-year stage. MAN holds its annual meeting on Thursday.

November wholesale prices, due this week, are expected to decline by 0.1 per cent, continuing the process of disinflation of recent months.

MADRID
Underlying inflation figures for November, due on Wednesday, are expected to show a fall to 5.2 per cent, from 5.3 per cent in October. However, James Capel expects headline inflation to rise to 4.9 per cent, from October's 4.6 per cent, reflecting a limited fall in fresh food prices a year ago.

MILAN
Industrial production figures are due this week. UBS forecasts a 1 per cent decline in October, noting that recent surveys continue to point to falling production in the final quarter of this year.

TOKYO
A volatile week is in store, dominated by short-term dealing ahead of the winter holidays. Economic figures this week are unlikely to provide surprises, with investors instead continuing to focus on political developments, including negotiations over tax cuts and other fiscal stimulus measures.

HONG KONG
China's reaction will be awaited on Wednesday when Governor Chris Patten tables the partial Bill containing some of the less controversial elements of his democratic reform plans to the Legislative Council.

INDICES AT A GLANCE

	Closing price	Change on week	% Change on 12 months	Since Jan 1	12 month High		12 month Low		1993 High		1993 Low	
FT-SE 100	[illegible]	[illegible]	+19.6	+14.5	3,277.4	8/12/93	2,716.2	11/12/92	3,277.4	8/12/93	2,737.6	19/1/93
Dow Jones Ind.	3,740.67	[illegible]	+12.9	+13.3	3,740.67	10/12/93	3,241.95	20/1/93	3,740.67	10/12/93	3,241.95	20/1/93
Nikkei 225	17,237.43	[illegible]	+1.5	+1.8	21,148.11	13/9/93	16,078.71	29/1/93	21,148.11	13/9/93	16,2078.7	29/1/93
Dax	2,161.13	[illegible]	+44.5	+39.9	2,175.80	9/12/93	1,469.75	14/12/92	2,175.80	9/12/93	1,516.50	13/1/93
CAC 40	[illegible]	[illegible]	+24.2	+18.3	2,231.36	22/10/93	1,735.23	17/12/92	2,231.36	22/10/93	1,772.21	29/1/93
Banca Comm Ital.	[illegible]	[illegible]	+37.8	+30.6	632.66	30/8/93	404.25	15/12/92	632.66	30/8/93	446.33	1/1/93

FT Graphite

RISK AND REWARD

Joy on hold until December contract expires

As Christmas looms, a fund manager's thoughts often turn to locking in profits. End-of-year bonuses always set pulses racing – especially this year, when dividends and share price rises in the London market have provided a combined return of around 20 per cent. If anything untoward happens between now and the end of the year, it will be too late to repair the damage, and investors and traders are beginning to feel the need to squirrel away their gains.

Consequently, there will be a sigh of relief after this week's all-important expiry of the FT-SE 100 futures contract for December. By 10.30am on Friday, the quarterly miracle will have occurred: the price of the contract will match the price of the underlying stock market and the contract will expire. However, four full trading days before expiry, some dealers feel a real miracle will be needed. The December contract has experienced sharp rises, a surge of overseas buying, and big movements in technical factors such as premiums and open interest.

The futures market operates either as an easy way into the stock market or as a hedge against potential losses. Institutions such as pension funds or insurance groups buy a basket of shares representing the FT-SE 100 index, and marketmakers who sell those shares will buy futures to cover themselves.

In a perfect world, the futures contract has a nominal value slightly above the FT-SE 100 index. This "fair value premium" represents the interest that would have been earned from having funds in the bank, minus the cash that would have been lost in terms of dividends. If the premium moves away from fair value, arbitrageurs will capitalise on the spread. For example, if fair value is 10 and the futures contract moves to a premium of 20 the "arbs" will sell the futures contract and buy the cash market.

Large UK institutions have discovered the appeal of buying futures first and picking up the shares later.

Also, US investors have poured money into European markets this year and have often used the futures markets as their point of entry. Dealers estimate that US institutions, which are much more aware of the potential of derivatives markets than their UK counterparts, represent half the business in the London contract.

The appeal of the futures market was underlined after the Budget. Investors funnelled cash into the London stock market. Such was the demand that buyers were unable to obtain equities and bought futures contracts instead. When there should have been no premium, according to most dealers' calculations, the futures contract was some 30 points higher than the stockmarket.

Mr Nigel Croft, derivatives analyst with Kleinwort Benson, says: "We haven't seen the futures at such a high level for the whole of this year and most of last. Once it starts to go we could see it fall very quickly."

The demand is highlighted by the exceptionally high level of open interest, a figure that represents both the number of long positions and the number of short positions in the market. By the close of dealing on Friday there were still around 45,500 open positions.

That figure must be closed out by Friday morning. Long-term investors will let the contracts expire and collect stocks.

With the stock market near its record high, it could take astute salesmanship to persuade some funds to add to their weightings, and the pressure to settle is expected to result in a volatile market. There is still a lot of shuffling to be done.

Peter John

The Emerging Investor / John Murray Brown

Turkey's market goes electronic

It was billed as Turkey's very own Big Bang. Friday December the 3, and Mrs Tansu Çiller, the prime minister, was to inaugurate the new screen-based trading floor of the Istanbul Stock Exchange, swinging the gong to open the two-hour session.

If things had gone to plan, the first trades would have started, as usual, at 10.30am. But what with traffic congestion on the Bosporus waterfront, and the crush of Mrs Çiller's numerous admirers and her equally well represented security officials, time slipped by.

Indeed trading opened 10 minutes late – for the first time in the exchange's history. More than that, Mrs Çiller placed an order for shares in a local porcelain company – specially chosen by exchange experts – only to see the stock plummet, with her modest one-lot holding registering a TL600 loss at end of the day.

Turks are not known for being superstitious. However, some in the broking fraternity could be forgiven for thinking this a portent of the imminent change in the market's fortunes after a remarkable year in which Istanbul has outperformed almost all the world's emerging markets, according to the International Finance Corporation, the affiliate of the World Bank.

The Istanbul market's composite index closed last Friday 234.8 lower at 17,961.9, down 1.7 per cent on the week but up by more than 350 per cent on the year so far – in local currency terms. Measuring gains in terms of the US dollar merely halves the market's rate of climb. Average daily trading is running at about $83m, after a record high on November 30 of $219.9m.

The index has been driven higher by strong domestic demand, and an expansionary fiscal and monetary policy. Regulatory changes have also been introduced to encourage mutual and other funds to invest in equities, providing the market some badly needed liquidity.

Analysts say the stock market still has some way to go to catch up with the real levels attained in 1990 before Saddam Hussein's tanks rolled into Kuwait, and knocked equity markets sideways around the globe.

But brokers are concerned that with a price earnings ratio of over 20, shares have already been marked up to reflect the buoyant activity of the economy, which is growing at an estimated 8 per cent in 1993.

Turkey's capital markets have deepened considerably in recent years. The fixed interest market, which was only started in June 1991, now averages a daily volume of $44m. Asset backed securities have become particularly popular with banks with consumer lending exposure, allowing them to increase their liquidity. There is even talk of allowing banks to issue commercial paper.

Ten best performing stocks				
Stock	Country	Friday close	Week on week change $	%
Land & Houses	Thailand	24.24	4.66	23.79
Shinawatra Computer	Thailand	55.16	10.42	23.30
Goldstar	S.Korea	27.81	5.06	22.27
Companhia Suzano (Pfd)	Brazil	3.01	0.53	21.60
Posco	S.Korea	56.60	9.88	21.15
Malayan Banking	Malaysia	8.81	1.50	20.49
Michaniki	Greece	54.62	9.26	20.43
C.P. Feeonil	Thailand	8.82	1.38	18.61
Korea First Bank	S.Korea	15.32	2.35	18.08
Hellas Can	Greece	20.92	3.10	17.41

Source: Baring Securities

But the broking community is looking for a new impetus from the government. Istanbul, like many emerging stock markets, still has a narrow investor base. Many privately owned companies remain reluctant to dilute ownership by going to the market for equity finance, although changes to allow the issue of non-voting stock may ease this bottleneck.

The bourse remains shallow. Some 150 companies are traded, although a much larger number have listed for the tax advantages. The free float is around $5bn compared with the market capitalisation of closer to $30bn.

Moreover, Turkish equities have suffered in the shadow of the fixed interest instruments. Government issues of bills and bonds account for close to 70 per cent of capital market activity.

Insurance companies, in many countries the ballast for the equity market, retain an aversion to invest in stocks, which account for barely 10 per cent of the total TL5,000bn under management. Lehman Bros Securities in London estimates that 38.9 per cent of total pre-tax profits of the leading 500 companies, has derived from income generated from non-operating activities.

The equity markets face technical hurdles too. The need to settle within 24 hours of a transaction – a direct function of Turkey's high inflation; now around 65 per cent – is unpopular, particularly with overseas investors. However, a growing volume of business is now conducted through a centralised depository system for settlement and clearance. Together with the move to electronic dealing, this will help to foster greater transparency, and encourage the big institutional investors.

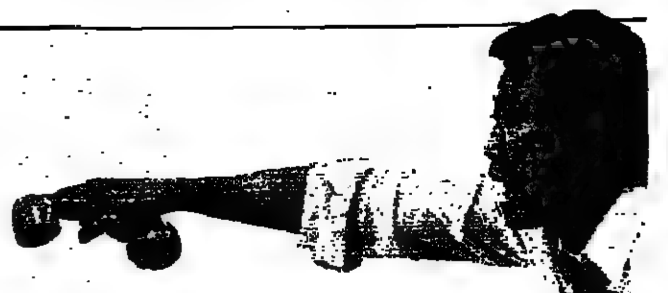
Tax changes have been designed to give breaks for mutual funds investing in equities. A new package is now before parliament, which includes proposals to reduce the corporate tax rates for companies going public.

The market is also waiting to see if the government will stick to its undertaking to its European trade partners to lower import tariffs further in 1994 as Turkey prepares for a customs union with the European Union in 1995.

Customs union could have a dramatic impact on the profitability of companies in the auto and white goods sectors, which enjoy high protection in the domestic market. However, a renewed commitment from the government to meet the deadline could also encourage a spate of new issues as companies look to raise equity finance to pay for new investment in technology – the only way many groups will be able to compete with cheaper imports.

With Mrs Çiller committed to more radical privatisation, brokers are looking anxiously at the market's ability to absorb a spate of new stock, without the arrival of large institutional investors.

The central problem is that while budget expenditure rises, the government's own need for funds will continue to divert money away from the equity markets.



News round-up

■ Venezuela

Venezuela's new president-elect, Rafael Caldera, unsettled the market in the country's Brady bonds in his first post-election press conference, *writes Stephen Fidler in Caracas*. He said that Venezuela recognised its obligation and would not renege on them, but said that the debt schedule was especially burdensome in 1995 and 1996.

He added that the current weakness of oil prices "constituted a new fact that has to be considered by our creditors". If Mr Caldera does think he can renegotiate the debt, it may be more difficult than he recognises: the Brady bonds are far more widely spread out among banks and private investors than the old bank debt it replaced.

■ Lebanon

The Lebanese government is delaying plans to raise $300m (£201m) for reconstruction work in Beirut by issuing Eurobonds. It said that it hopes to obtain more favourable terms in the new year.

Some analysts said they thought the issue had been postponed so that the government could assess the reception of the $650m equity offering of Solidere, a $1.8bn property company set up to rebuild the centre of Beirut, which closes on January 10.

■ Indonesia

Baring Securities' newly-arrived Asian strategist Alan Butler-Henderson has been setting out his thoughts in London. Mr Butler-Henderson has a standing forecast of 15,000 for the Hang Seng index in 1995, but he likes Indonesia best for 1994, forecasting a gain in the Jakarta market of 64 per cent from end-November 1993 to December 31 next year.

■ Brazil

The country's privatisation programme has hit a problem after the government admitted failure in its attempt to sell petrochemical group Petroquimica União (PQU).

At an auction last week only some 5m of the 50m shares on offer had attracted bidders. The privatisation had already been postponed five times.

■ Bombay

Foreign stock brokers have been given permission for the first time to operate in the country on behalf of overseas funds. Four firms, James Capel, Marlin Partners, Kleinwort Benson and Credit Lyonnais Securities, will operate on behalf of funds which have invested up to $650m over the past year.

Last year India allowed a small number of foreign institutional investors to invest in its 23 stock markets for the first time.

■ Shanghai

Chinese authorities, concerned at the disappointing performance of the B share market open to foreign investors, are thought to be planning measures to boost activity. The B share market has suffered from weak prices and sluggish turnover, while H shares issued by Chinese companies in Hong Kong from last summer have been performing very strongly.

■ Taiwan

High-technology companies in 10 industries are to be included in the list of lower-requirement category C shares, in an effort to help the companies to raise funds. Category C companies will require a minimum paid-in capital of T$200m and a net asset value not below two-thirds of their capitalisation.

● Further coverage of emerging markets appears daily on the World Stock Markets page.

CURRENCY MARKETS Conner Middelmann

Dealers wait for Gatt and Bundesbank

The Uruguay Round of the General Agreement on Tariffs and Trade (Gatt) and Thursday's meeting of the Bundesbank's central bank council will hold foreign exchange dealers' attention this week.

Financial markets have broadly discounted a successful conclusion of the Gatt talks by Wednesday's deadline. An agreement is seen to promote trade liberalisation, leading to lower prices, while a failure is perceived to lead to protectionism and inflationary pressures. While an agreement has been largely priced in, its confirmation is expected to trigger a brief fillip by bond prices and currencies.

On Thursday the Bundesbank should unveil its M3 money supply growth target for 1994 amid speculation that this will be accompanied by another cut in key interest rates. It recently set fixed-rate securities repurchase agreements at 6 per cent through the first week of January, widely quelling hopes for further rate cuts before the year-end. However, some analysts still feel the Bundesbank may cut its 5.75 per cent discount rate before the new year.

A December discount rate cut could damp speculative pressures early in the new year, noted Ms Alison Cottrell, European economist at Midland Global Markets. Moreover, "a cut might be easier just ahead of November M3 and the passage of the 1994 Budget on December 17 – assuming both are satisfactory to neutral – and coincident with the announcement of a lower M3 target for 1994, than it would closer to January's tax-bloated cost of living figure."

Amid continued easing hopes, the D-Mark is likely to remain soft against most of its hard-core counterparts in Europe's exchange rate mechanism. However, few analysts expect to see a continuation of last week's hefty gains by these currencies, notably the French franc. The Bank of France's perceived reluctance to cut interest rates independently of the Bundesbank, its continued need to rebuild foreign currency reserves and the patchy French recovery are likely to cap the franc's upside against the D-Mark, analysts say.

Meanwhile, a setback for reformist parties in the Russian elections could cause some currency volatility, with the D-Mark likely to be most hit.

The US dollar may be shaken by a raft of economic data due this week which might give it the awaited push through key resistance at DM1.7250.

Sterling is expected to trade in a narrow range around DM2.55 before Wednesday's November inflation figures, though rate-cut speculation is likely to underpin the currency.

Baring securities emerging markets indices

Index	10/12/93	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (239)	151.79	+6.18	+4.24	+16.29	+12.02	+50.73	+50.20
Latin America							
Argentina (19)	104.7	+5.94	+6.01	+5.94	+6.01	+30.52	+41.10
Brazil (18)	130.97	-0.89	-0.68	+1.87	+1.45	+53.06	+68.10
Chile (12)	128.41	-0.65	-0.50	+5.19	+4.21	+17.12	+15.38
Mexico (22)	148.94	+8.06	+5.72	+30.89	+26.16	+31.20	+26.50
Latin America (71)	137.99	+5.39	+4.06	+18.25	+15.24	+37.63	+37.50
Europe							
Greece (14)	84.95	+2.31	+2.79	+7.28	+9.37	+14.80	+21.10
Portugal (13)	112.72	+1.42	+1.27	+1.18	+1.06	+28.71	+34.18
Turkey (22)	141.61	-1.12	-0.78	+18.08	+14.64	+87.74	+162.89
Europe (49)	106.85	+1.22	+1.13	+7.16	+7.05	+36.73	+55.23
Asia							
Indonesia (17)	156.37	+0.32	+0.21	+0.49	+0.32	+57.92	+58.44
Korea (23)	108.60	+11.27	+11.64	+12.74	+13.38	+19.44	+21.94
Malaysia (21)	226.22	+10.60	+4.92	+21.44	+10.47	+97.19	+75.33
Philippines (9)	249.20	+10.13	+4.24	+21.84	+9.61	+126.74	+103.50
Thailand (20)	244.21	+20.24	+9.04	+20.93	+9.37	+121.95	+99.75
Taiwan (29)	100.58	+1.75	+1.67	+12.47	+13.25	+30.62	+40.31
Asia (119)	192.91	+10.36	+5.68	+17.67	+10.06	+80.32	+71.34

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 10, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	2289.20	1531.24	901.38	1402.37
Albania	(Lek)	165.085	110.405	64.9922	101.108
Algeria	(Dinar)	35.9250	24.0301	14.1437	22.0081
Andorra	(Fr Fr)	8.6875	5.8177	3.4242	5.3277
	(Sp Peseta)	207.80	138.993	81.7322	127.187
Angola	(New Kwanza)	10004.65	6692.07	3938.84	6128.42
Antigua	(E Carr $)	4.0514	2.7099	1.595	2.4817
Argentina	(Peso)	1.4930	0.9986	0.5877	0.9145
Aruba	(Florin)	2.6869	1.7965	1.0574	1.6450
Australia	(Aus $)	2.2310	1.4923	0.8783	1.3666
Austria	(Schilling)	17.86	11.9397	7.0276	10.9341
Azores	(Port Escudo)	259.30	173.445	102.087	158.836
Bahamas	(Bahama $)	1.4950	1	0.5885	0.9157
Bahrain	(Dinar)	0.5653	0.3781	0.2225	0.3462
Balearic Is	(Sp Peseta)	207.80	138.993	81.7322	127.187
Bangladesh	(Taka)	58.6775	39.3929	23.1807	36.0658
Barbados	(Barb $)	3.0180	2.0187	1.1881	1.8486
Belgium	(Belg Fr)	53.10	35.5163	20.9055	32.5247
Belize	(B $)	3.0010	2.0073	1.1814	1.8382
Benin	(CFA Fr)	434.875	290.886	171.211	266.395
Bermuda	(Bermudian $)	1.4950	1	0.5885	0.9157
Gambia	(Dalasi)	12.6040	8.4307	4.9622	7.7206
Germany	(D-Mark)	2.5400	1.6990	1	1.5558
Ghana	(Cedi)	1125.40	752.776	443.071	689.372
Gibraltar	(Gib £)	1.00	0.6689	0.3937	0.6125
Greece	(Drachma)	362.75	242.642	142.815	222.206
Greenland	(Danish Krone)	9.9379	6.6471	3.9124	6.0872
Grenada	(E Carr $)	4.0514	2.7099	1.595	2.4817
Guadeloupe	(Local Fr)	8.6975	5.8177	3.4242	5.3277
Guam	(US $)	1.4950	1	0.5885	0.9157
Guatemala	(Quetzal)	8.6915	5.8137	3.4218	5.324
Guinea	(Fr)	1218.85	815.284	479.862	746.618
Guinea-Bissau	(Peso)	7502.50	5018.39	2953.74	4595.71
Guyana	(Guyanese $)	187.55	125.452	73.8385	114.885
Haiti	(Gourde)	18.0060	12.0441	7.0889	11.0297
Honduras	(Lempira)	11.0585	7.3969	4.3537	6.7739
Hong Kong	(HK $)	11.5540	7.7284	4.5488	7.0774
Hungary	(Forint)	149.95	100.301	59.0354	91.8528
Iceland	(Icelandic Krona)	107.140	71.6656	42.1811	65.6294
India	(Indian Rupee)	46.86	31.3377	18.4448	28.6983
Indonesia	(Rupiah)	3156.85	2111.57	1242.83	1933.72
Iran	(Rial)	2619.45	1752.14	1031.28	1604.59
Iraq	(Iraqi Dinar)	0.4669	0.3136	0.1845	0.2872
Pakistan	(Pak. Rupee)	45.0750	30.1505	17.746	27.611
Panama	(Balboa)	1.4950	1	0.5885	0.9157
Papua New Guinea	(Kina)	1.5310	1.024	0.6027	0.9378
Paraguay	(Guarani)	2597.80	1604.62	1082.17	1562.62
Peru	(New Sol)	3.2560	2.1779	1.2818	[illegible]
Philippines	(Peso)	40.86	27.3313	16.122	25.0842
Pitcairn Is	(£ Sterling)	1.00	0.6689	0.3937	0.6125
	(NZ $)	2.6945	1.8023	1.0608	1.6505
Poland	(Zloty)	31361.0	20977.3	12346.8	19210.4
Portugal	(Escudo)	259.30	173.445	102.087	158.836
Puerto Rico	(US $)	1.4950	1	0.5885	0.9157
Qatar	(Riyal)	5.4535	3.6545	2.1509	3.3467
Reunion Is. de la	(F Fr)	8.6975	5.8177	3.4242	5.3277
Romania	(Leu)	1605.45	1074.55	632.461	984.043
Rwanda	(Fr)	214.95	143.779	84.6259	131.669
St Christopher	(E Carr $)	4.0514	2.7099	1.595	2.4817
St Helena	(£)	1.00	0.6689	0.3937	0.6125
St Lucia	(E Carr $)	4.0514	2.7099	1.595	2.4817
St Pierre	(French Fr)	8.6975	5.8177	3.4242	5.3277
St Vincent	(E Carr $)	4.0514	2.7099	1.595	2.4817
San Marino	(Italian Lira)	2504.00	1674.92	985.827	1533.84
Sao Tome	(Dobra)	380.120	240.993	141.79	220.594

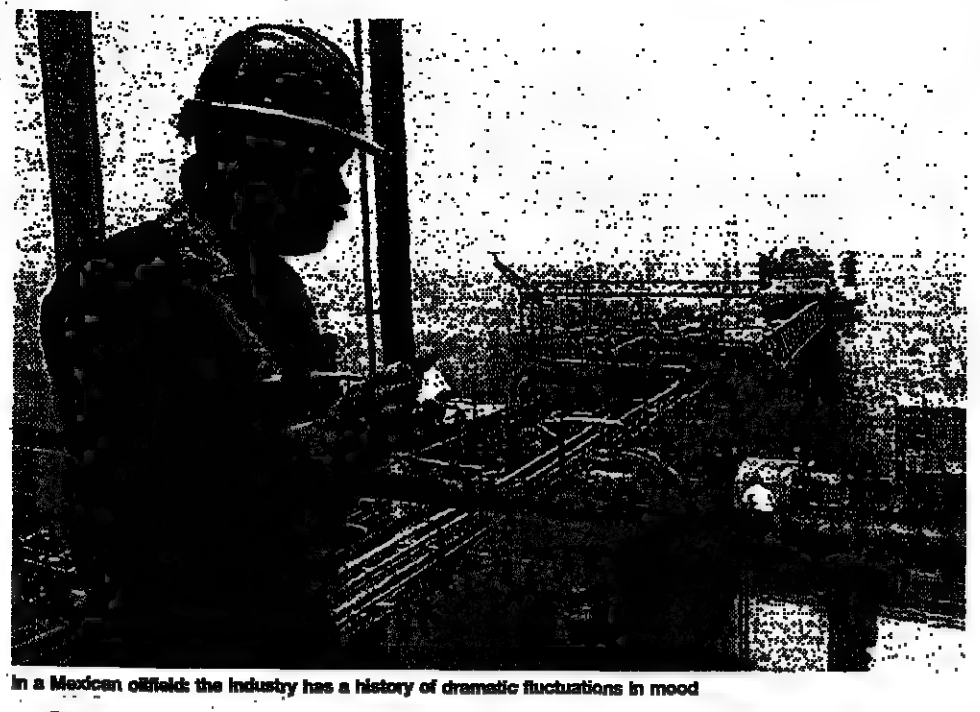
Special Drawing Rights December 9, 1993 United Kingdom £0.929822 United States $1.39991 Germany D Mark1.92895 Japan Yen123.971

هكذا من الاصل

FINANCIAL TIMES SURVEY

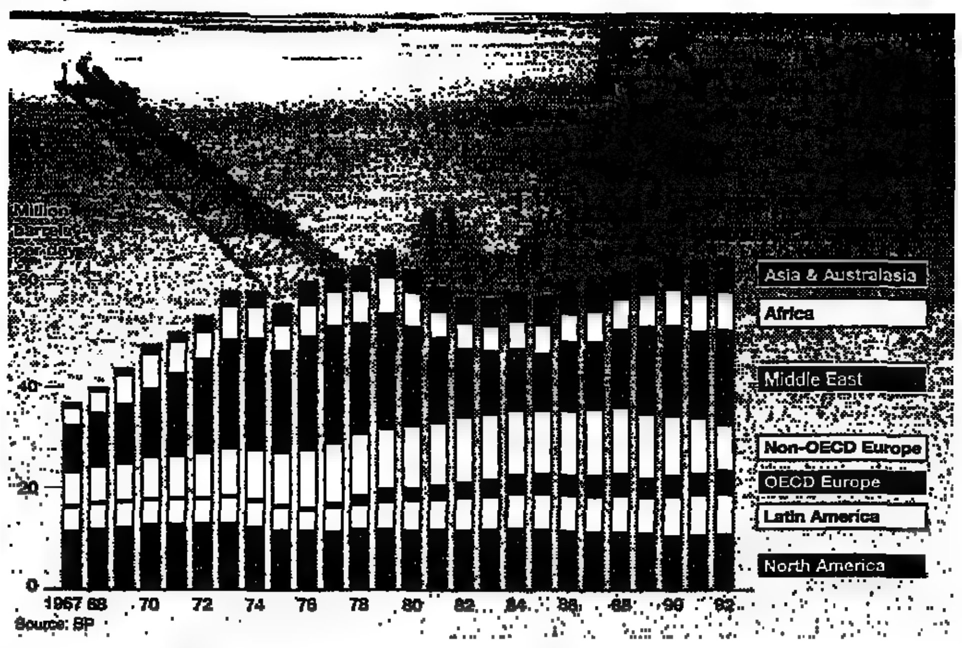
OIL AND GAS INDUSTRY

Monday December 13 1993



In a Mexican oilfield: the industry has a history of dramatic fluctuations in mood

Oil production



Gas becomes the jewel in the crown

Oil prices, which fell 20 per cent this year, may suffer even steeper falls once Iraq comes back on stream, writes Robert Corzine. But gas, once the oil industry's poor relation, is now the star performer

Mood swings are nothing new to the world's oil and gas industry. Its history is writ large with extreme movements in prices and a supply situation that can fluctuate rapidly between shortfalls and surplus.

To some observers the 20 per cent slump in oil prices this year may be seen as merely a temporary blip. Advocates of this argument say demand and supply is nearly in balance, and that oil prices are likely to edge back up to average $17-$18 next year. The most recent price falls, they believe, reflect over-nervous financial markets, which have reacted badly to persistently low demand in the main consuming countries at a time of particularly plentiful oil supplies.

But others warn that today's depressed prices may be just the first phase of a deeper collapse.

They note that crude oil prices have fallen by an average of 9 per cent a year since 1991, with few positive factors on the horizon.

Traders are beset with reasons why oil prices could fall further. There is the prospect of even greater amounts of oil becoming available next year from a resurgent North Sea and other producers outside the Organisation of Petroleum Exporting Countries.

There is also considerable scope for market volatility in the run-up to the re-emergence of Iraqi oil exports, possibly as early as the second half of 1994 if Baghdad meets United Nations demands over the long-term monitoring of industry with military potential.

Pessimistic observers say such conditions could even prompt the benchmark Brent Blend to fall below $10 a barrel – a level last seen in the price collapse of 1986 – although in real terms prices are already at those levels.

The major oil companies had been scurrying off in search of new supplies of relatively cheap oil. That search has been fuelled by the opening up in recent years of large parts of the world previously out-of-bounds to the industry, including the former Soviet Union and China.

But much of the industry's current capital spending is still concentrated in well-known areas.

This is due in part to the application of new seismic and drilling technology. This is occurring both in new areas, just being opened to exploration, as well as in mature regions such as the North Sea and the Gulf of Mexico, whose original development can be traced to earlier periods of high oil prices.

Such techniques are being used by both the major companies and a growing band of independents to add substantially to the life of many existing fields and producing regions.

Such strategies have the added benefit of maximising the investment made over the years in costly infrastructure such as platforms, pipelines and terminals. For the big integrated oil companies, however, the recent decline in oil prices and the knock-on effect on their share prices has taken much of the gloss off such achievements.

Suddenly the themes put forward by both the US and European majors and which so impressed the markets earlier this year – successful reductions in overheads and a renewed focus on core businesses – no longer seem so convincing. Sceptical investors wonder what will happen to the majors' cash flow if average prices next year are closer to the current level of $14 a barrel, rather than the $18-$20 a barrel to which a number of companies have successfully adjusted.

Weak oil and share prices would also affect the search for ever-cheaper and bigger reserves in the world's frontier areas.

Exploration efforts in remote areas of China and the countries of the former Soviet Union are in their early stages. The majors have committed large amounts of skilled manpower, but their capital costs are so far relatively small. That could soon change, however, as projects in those areas become serious competitors for scarce development funds, say analysts.

The scale of such undertakings is illustrated by a recent estimate by Chase Manhattan Bank that western companies could be spending more than $5bn a year on exploration and development projects in the former Soviet Union within a "couple of years, and much more in five to 10 years".

The integrated majors have downstream profits to fall back on when prices weaken, a factor much in evidence in third quarter results. But chronic refining over-capacity in Europe threatens to undercut margins, while the recession in Europe and Japan continues to dampen final demand.

The independent exploration companies have no downstream buffer to fall back on. A prolonged period of price weakness could not only cut into new exploration and development spending. It could also trigger off an acquisition hunt by bigger cash-rich companies keen to secure sound assets at bargain prices.

The financial pressures imposed on the corporate sector by low oil prices are nothing, however, to those being felt by the 12 members of Opec. The extent of the potential damage is highlighted by the fact that for every annualised dollar fall in the oil price, member states lose a combined $5bn in annual revenues.

Opec's overall oil revenues have fallen steadily in the first three quarters of this year. The most recent price falls mean they could reach a level not seen since before the Kuwaiti crisis of 1990, according to a recent study by the London-based Centre for Global Energy Studies. Even Saudi Arabia, the dominant producer, is experiencing a budgetary crisis.

The failure or inability of many Opec members to diversify their economies and reduce their dependence on oil revenues has compounded the pain induced by the price falls.

It also raises the spectre of possible social unrest in the most vulnerable Opec countries, such as Iran and Nigeria, whose non-oil domestic economies are performing poorly.

The oil industry is looking to Opec to stabilise the market with production cuts. But the organisation faces a dilemma, according Gulf Arab officials. A modest cut from its current output ceiling of 24.52m barrels a day might send a positive signal that Opec can fine-tune production to suit very short-term demand. But it would also cause some members to cheat on their individual production quotas, say the Gulf officials, thereby triggering further price falls.

Opec's decision in November to maintain the present production ceiling into the new year was also based on a belief that the demand will increase, either through bad weather in the industrialised world or as a result of cheap prices encouraging the greater use of oil in those economies which are growing.

But the decision also reflected Opec anger that independent producers are nibbling away at the organisation's market share.

Opec no longer wants to play the role of swing producer, say officials, and a production cut would simply hasten the gains being made by non-Opec producers.

The decision not to budge was also a reflection of the reluctance on the part of Saudi Arabia and other large Opec states to cut quotas in advance of Iraqi exports being readmitted into the production ceiling, probably by the second half of next year.

An emergency meeting will be called as soon as the UN gives the go-ahead for renewed Iraqi exports. It could prove to be one of the most contentious in Opec history given the antagonism between Iraq and its Gulf neighbours.

Iraq, which has the world's second largest reserves, is adamant that it should be allowed to return to the export markets with a large quota. But that would require deep cuts in the quotas of other members, most notably Saudi Arabia, at a time when their need for oil revenues is rising.

The pessimistic mood which has gripped the oil industry has shown no signs of infecting the gas sector. Gas is increasingly being viewed as the most environmentally benign fuel, a label which is ensuring a high degree of interest in developed markets such as Europe.

In October the first gas was delivered to continental Europe from fields off Norway under the Troll agreement, the largest commercial contract in the history of the petroleum industry.

A number of pipeline proposals are under consideration to link continental Europe with new reserves. These include the possible construction of an inter-connector between the UK and Belgium, as well as additional lines from Russia and Norway.

In the US, newly-deregulated markets have resulted in higher prices, which in turn have persuaded a number of companies to explore for new reserves.

Elsewhere, and especially in Asia, gas-fired power generation schemes are seen as one of the fastest and cheapest ways to make up from shortages of electricity.

Explorers target new and old territories, writes **Robert Corzine**

From China to Mexico

The Tarim basin in northwest China, the Caspian Sea and Azerbaijan are among the exotic locations which have drawn the attention of the world's oil and gas companies during the past year as they seek to secure new reserves for the 21st century.

They and dozens of other remote areas figure prominently in the "frontier strategies" under which a growing number of companies are ranging beyond their traditional operating areas. But the focus on trying to find very large oil and gas fields in frontier areas has diverted attention from a surge of renewed interest in mature regions, such as the Gulf of Mexico and the North Sea.

Advances in both exploration and production technology combined with the desire to maximise the heavy investment in the infrastructure of such areas is driving the trend.

It has been most evident in the past year in the Gulf of Mexico, where oil production began more than 40 years ago. Exploration of the area dropped sharply in the late 1980s as some of the bigger companies began to look abroad for new reserves. But buoyant US natural gas prices have attracted a large number of independent companies to the region.

Their success rate has been enhanced by their ability to gain relatively cheap access to three-dimensional seismic data. This technique, combined with the much greater power of the latest generation of computers, has enabled geologists to "see" through structures such as salt domes. These structures had blocked views derived from the earlier two-dimensional seismic techniques.

The new seismic technology has also helped in the discovery of smaller satellite fields close to existing platforms. Many of these can then be tapped by horizontal drilling from an existing platform. The technique can reach reservoirs as far away as 6km, eliminating in many cases the need and cost of building a new platform.

Other new technology, such as tension leg platforms, is allowing companies to move into deeper water. The Mars field, described by Shell and British Petroleum as the largest discovery in the Gulf of Mexico for the past 20 years, lies in 2,933 feet of water.

Technology has also played a key role in maintaining production in the North Sea where early fields such as Ekofisk, off Norway, and Brent and Forties in the UK are being re-engineered to prolong their production life. The re-engineering of the Brent field, the UK's largest oil producer, by Shell and Esso, includes a shift in emphasis to gas production. The work, which will cost £1.3bn and take five years to complete, will add 10 years to the field's production life.

Mr John Browne, managing director of BP Exploration, believes the life of North Sea production could extend well into the next century "even if prices never rise again in real terms". He says that new technology could push recovery rates as high as 70 per cent of reserves within 20 years, compared with the 50-55 per cent achieved in only a few fields at present.

Companies are only now beginning to realise the full scope for cost reductions in the North Sea. The UK Offshore Operators Association, whose membership includes all 36 companies producing oil and gas in the UK sector of the North Sea, believes savings of up to 30 per cent in capital costs of offshore platforms could be made if more attention was given to standardisation of designs and equipment. A recent report contained a series of recommendations detailing new codes and practices. It predicted that substantial cost savings were possible within two or three years if the basic proposals were implemented.

Mr Browne believes that a 30 per cent cut in capital costs and a 50 per cent cut in operating costs over the next 20 years "could raise the total volume recoverable from the North Sea by 25 per cent – from around 60bn barrels of oil equivalent to around 75bn".

The way in which technology and higher productivity can prolong the life of mature areas is unlikely, however, to lead to any sharp falloff in oil company interest in frontier areas. But their sheer distance from the world's main markets and lack of local infrastructure make them a long-term proposition.

China's Tarim basin, for example, is 2,500 miles from the coast. Studies suggest it could cost as much as $6 to move a barrel of oil through a proposed pipeline to China's main markets. A similar level of transportation charges is likely in other promising but landlocked areas, such as Kazakhstan.

A BP worker near Prudhoe Bay, Alaska: hostile environments are all part of the day's work

The political uncertainty surrounding the future of such countries and the need to move oil or gas across sometimes unfriendly borders complicates their development, even if the per barrel cost of producing oil or gas is attractive.

The growing competition among countries for foreign investment to help develop their petroleum resources is also likely to exert a strong influence on where oil companies look next. Much of the interest in the world's more remote areas can be traced to the withdrawal or exclusion of many western oil companies from Middle Eastern and Latin American countries as a result of nationalisation.

There is no prospect that the old concession system in the Middle East will be revived, but some of the barriers to western oil companies in the region are being lowered. There were reports this year that Kuwait was discussing exploration prospects with western companies, while French companies in particular are positioning themselves to take advantage of opportunities in Iraq once United Nations sanctions are lifted.

The prospect that western oil companies could become more deeply involved in the Middle East in years to come has been boosted by the fact that many countries in the region cannot afford to develop on their own the new reserves needed to maintain, let alone enlarge, their capacity. The relatively low cost of much oil in the area has obvious appeal to western companies, but the political risks of the region remain relatively high despite the peace agreement between Palestinians and the Israelis.

■ NATURAL GAS

The pressure rises

Natural gas is undergoing a metamorphosis. Within just a few years it has shed its status as a nuisance by-product of oil and has donned the mantle of being the "noble" fuel.

Shares in oil companies rich in gas reserves have enjoyed stock market premiums in the past year. Gas distributors in industrialised countries are increasingly moving into international markets. Deregulation of the industry in the US has boosted prices and set off a mini-exploration boom in the Gulf of Mexico. Growing markets in the UK have resulted in mature North Sea oil fields, such as Brent, being re-engineered as gas producers.

Further afield there has been a proliferation of proposals to build new pipelines to link remote reserves found in Russia, other former Soviet states and the Middle East with markets in Europe and Asia.

The rising interest in gas across the world begs the question, however, of whether companies can actually develop a global strategy for gas along the lines of the international oil business. For unlike oil, the gas business varies widely by region. In addition it is not an internationally tradeable commodity in the sense of oil, which can be easily transported to a variety of markets in relatively small amounts. The high costs of gas require a direct physical and contractual link between the production site and consuming area.

But there is no shortage of companies, mainly from the US and Europe, chasing the growing list of opportunities. They form three main groups:

● The development of specific gas fields for use in power generation schemes. The number of such projects has grown steadily, with many companies focusing on Asia, where gas consumption has risen by 126 per cent in the past 10 years and where electricity shortages have emerged because of rapid economic growth.

● The linking of large remote reserves to the main industrialised consuming countries, especially in Europe and Asia through long, high-capacity pipelines or by deliveries of liquefied natural gas (LNG). The high cost of such projects usually results in the formation of a consortium to spread the risks. A good-sized LNG scheme can cost $5bn to develop. Pipeline projects can cost even more – the Troll project linking North Sea gas fields off Norway with six European consuming countries will cost $11bn.

● The refurbishment of ageing domestic gas supply systems, a number of which are being privatised.

British Gas, the biggest Western integrated gas company, has decided that its best growth prospects lie in applying its experience in both upstream and downstream areas to less regulated international markets.

The company recently sold its Consumers Gas subsidiary in Toronto, the largest single element of its international holdings grouped under Global Gas, the international transportation and distribution division. The sale did not reflect a scaling back of British Gas' international ambitions, according to Mr Russell Herbert, head of Global Gas. It merely reflected a change in strategy to concentrate on less mature markets.

A model for future projects, says Mr Herbert, is British Gas's current refurbishment of the privatised Buenos Aires and Berlin gas supply systems.

Asia looms large in British Gas's expansion plans, with a variety of exploration and production projects and power generation schemes in Thailand, Vietnam, Malaysia, Indonesia and Pakistan.

Its largest single project is the Karachaganak field in Kazakhstan, which could cost British Gas and Agip, the Italian oil company, as much as $6bn to develop.

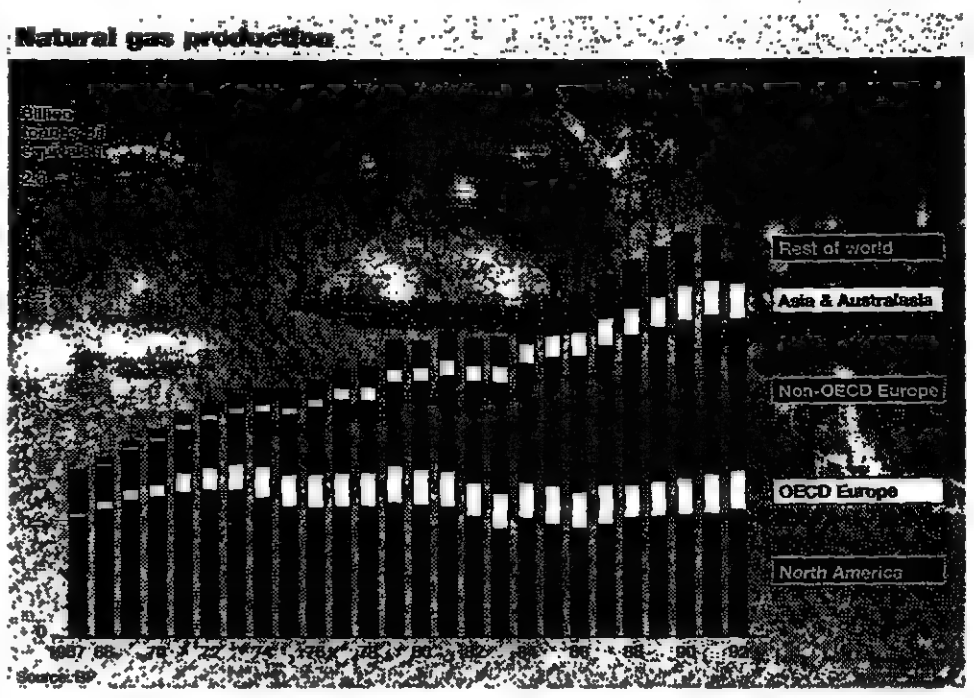
A number of other companies known mainly for oil production are significant forces in global gas markets. Shell, for example, has large gas businesses in the US, Europe and Asia. Its concentration has been on exploration and production rather than distribution, a trend which is likely to continue.

Natural gas forms 68 per cent of the proven reserves of Total, the French company, which is particularly strong in Asia and Europe. US companies such as Mobil, Exxon and Amoco are also keen to build on their strong gas reserves.

A number of national gas supply companies, such as Gaz de France, are seeking to profit internationally from their domestic expertise. The perceived need to be able to compete internationally was one of the main factors behind the deal earlier this year in which Gas Natural, Spain's national domestic gas distributor 45 per cent owned by Repsol, the state controlled energy group, bought Enegas, the monopoly industrial gas supplier, which is fully owned by the state.

Robert Corzine

Natural gas production



Source: BP

Security and moderation are the Saudi aim, says **Mark Nicholson**

Power with responsibility

Whatever the short-term pressures on Saudi Arabia's oil policy, the kingdom appears determined that these shall not divert the world's biggest oil exporting country from its longstanding goals of enhancing market stability, increasing integration of its upstream and downstream operations and pursuing a strategy designed to assure security of supplies at generally moderate prices.

But with prices dipping in late November to a five-year low, these pressures have never been greater on the kingdom since the Gulf war, during which Saudi Arabia boosted production from 5.4m barrels a day to nearer 9m b/d to fill the void left by lost Iraqi and Kuwait production. Since then, Saudi Arabia has stubbornly clung to its expanded share of total Organisation of Petroleum Exporting Countries output and, despite the recent weakening of prices, refused to consider cutting output below 8m b/d, its present production.

Since the 1990 Gulf war, the Saudis have clung stubbornly to their bigger Opec output quota

At the last ceiling-setting Opec meeting in October, however, the kingdom held its production level at 8m b/d even while allowing other members to raise their allocations to meet an expanded official level of 24.52m b/d. Some analysts interpreted this as the kingdom resuming its pre-Gulf war role as the organisation's swing producer. But Saudi officials resist the thought resolutely. "That is not right at all," says one. "No short-term action on our part should be interpreted as a change of policy."

While the burdens of Saudi Arabia's budget deficit problem and the intense pressures of hard-pressed Opec colleagues have combined recently to raise the importance of price in the calculus of Saudi oil policymakers – "it's an important, key issue", says a senior official – Saudi Arabia remains committed more fundamentally to assuring that the world receives secure supplies of oil at prices which will not discourage its use in favour of other energy sources.

Accordingly, the kingdom has proceeded apace with expansion plans at Saudi Aramco which will see the world's biggest integrated oil company capable of sustained production of 10m b/d by the middle of next year. Present ceiling capacity, according to Aramco staff in Dhahran, lies at around 9.4m b/d.

Much of the initial de-bottlenecking which allowed for the expansion was undertaken during the surge to boost output during the Gulf war, accelerating plans laid before the conflict. Costlier work to bring on stream new fields south of Riyadh, notably the super light crudes in the Hawtah field, will be complete by next year. The total cost of the expansion will be around $15bn-$17bn according to Aramco staff.

Exploration is also continuing, with Aramco concentrating on areas around the western province and the Red Sea coastal plain. "We're essentially going back to areas explored first in the 30s and 40s with better technology," says an Aramco official.

But it was another event this year which consolidated Aramco's position as perhaps the world's biggest oil group. The company could already boast being the world's biggest exporter and its custodianship of the kingdom's 258bn barrels of recoverable crude gives it unchallenged reserves – more than a quarter of the world's known oil. In June, however, the government announced Aramco's merger with Samarec, which was then the state-run refining and marketing firm.

Although the act was entirely consistent with the kingdom's long professed policy of integrating its oil industry, both to achieve cost efficiency and to assure greater market stability, it nevertheless took industry executives by surprise.

Aramco is set to become the world's biggest integrated producer and refiner

In particular, many wondered why Mr Hisham Nazer, the oil minister, took a step which essentially eliminated Samarec as a distinct entity after having made such efforts to define the group's corporate identity. Saudi officials, however, prefer to characterise the step as simply one in a natural progression towards a fully integrated oil industry, saying that the timing was "irrelevant" and that Samarec had always been viewed as a provisional entity.

But many oil executives in the kingdom believe the move was designed to impose on the kingdom's refining and marketing operations what is universally considered to be Aramco's tighter and more efficient management ethos. "Samarec was run like a government department not a top-notch corporation," says a US oil official.

Six months into the merger and the administrative union appears almost complete. Aramco has subsumed most of Samarec's operations into a new "business centre" headed by Mr Abdelaziz Hokail, who headed a 100-strong task force which managed the dovetailing in July. So far, very few of Samarec's 11,000 staff have lost their jobs and those who have, say Aramco staff, have gone voluntarily.

The result is to endow Aramco with a considerable addition to its refining capacity, which before the merger lay solely in the Aramco-managed 300,000 b/d Ras Tanurah refinery north of its Dhahran headquarters. Now Aramco manages the 394,000 b/d capacity at the kingdom's three domestic refineries in Riyadh, Jeddah and Yanbu and the kingdom's interests in the joint venture Yanbu (250,000b/d) and Jubail (240,000b/d) export refineries. It also assumes the state's interest in the 325,000 b/d Rabigh plant, jointly owned with Mr John Latsis, the Greek businessman.

Aramco staff sought to stress throughout the merger that none of Samarec's current operations would be affected – a promise oil executives outside the group say has been largely honoured. However, the stamp of new Aramco management has already had a marked effect on what had been Samarec's ambitious future planning.

A $4bn multi-stage plan to upgrade quality at all the previously Samarec-run refineries

☐ Contd. on facing page

هكذا من الأصل

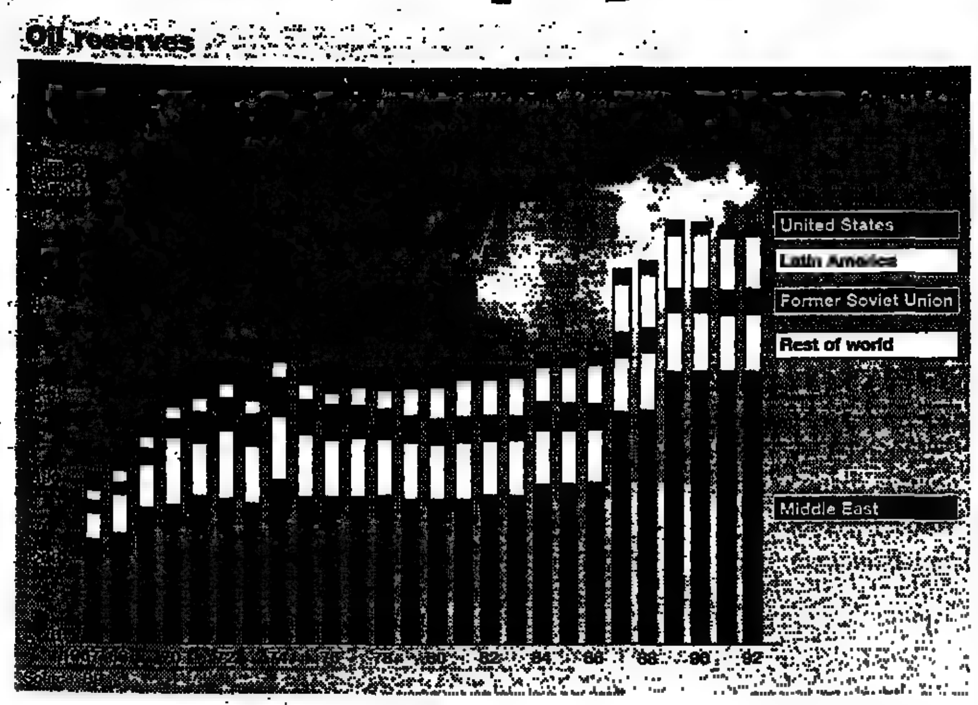
Latin American attracts more investors, writes **David Battman**

Liberalisation pays off

Many oil companies are taking a renewed interest in Latin America, where the trend is towards liberalisation of oil sectors and encouragement of foreign investment.

Mr John Browne, managing director of BP Exploration, confirmed recently that "investment has come to Latin America because the resource base exists and because the countries of Latin America have established a very receptive fiscal and regulatory climate. If that situation is maintained, there is no obstacle to the fulfilment of Latin America's potential in terms of production and export capacity".

But the transformation of Latin America into a region with a unique blend of foreign private and state involvement is not yet fulfilled. It is not yet clear that the changes effected can be serve as a model for other regions seeking to expand their oil and gas sectors.



Its production potential has never been in doubt. US companies in particular have long been involved in exploration and production, along with several European oil majors.

The oil shocks of the 1970s and the Iraqi invasion of Kuwait in 1990 served as a reminder to the US of the strategic importance of alternative fuel sources, particularly when they are so much closer geographically.

But political risks (in the region which invented oil nationalism) proved unacceptably high for many companies in the 1970s and 1980s.

Latin America's turnaround started with the spread of economic orthodoxy which followed the debt shock of the mid-1980s. Governments sought to open up their economies to make them more competitive, reduce spending and control inflation as requirements for the restructuring of foreign debt and to secure much-needed foreign capital investments.

Key aims of the oil and gas industries have been to secure foreign capital and technological injections not easily available domestically, and generally to work in partnership with the state company.

Mexico and possibly Brazil are opening up some areas to foreign involvement while retaining overall control. Other main regional producers are showing greater flexibility.

Partnership represents the most viable path for Latin America and potentially for other developing areas. For example, the Venezuelan Congress recently approved the development with Shell, Exxon and Mitsubishi of offshore gas-fields and export of LNG to the US, at an outlay of $7bn.

Agreements have also been reached with Conoco and Total, Itochi and Marubeni to produce extra heavy crude, with investment outlays of $3.5bn. Interest in exploration in Peru, Ecuador, Colombia, Venezuela, Bolivia and Argentina is currently high.

The Ecuadorean government is shortly to issue exploration licences for 2.2m hectares. So far, 100 foreign oil companies

Partnerships such as those developing in Mexico and Brazil are the best way ahead

have expressed interest and 50 have bought detailed documents on the Oriente (Amazon) and offshore blocks. Oil and gas pipeline contractors were seeking to benefit from major construction projects in Argentina, Bolivia, Brazil, Colombia and Venezuela.

At the other extreme, Argentina in 1993 privatised its state oil company YPF. But this is unlikely to serve as a model for the rest of Latin America. Although YPF is said to be the oldest state oil company in the world, it has never been the kind of nationalist symbol that Pemex was for Mexico.

Full privatisation of state oil and gas companies would, if desired, prove nigh-impossible in most countries. For this reason, Mexico insisted on retaining Pemex's privileged status when signing the North America Free Trade Agreement (Nafta). The position of Mexican President Carlos Menem is also stronger than that of most of his contemporaries.

Success in attracting foreign companies will therefore depend on the terms of the contracts offered and on governments' willingness to stick to them. Latin America petroleum specialist Dr Chris Brogan says that if Latin America is to attract the finance necessary to develop its oil potential, "it must ensure that contractual terms on offer are as good if not better than those being offered elsewhere in the world".

He adds that investors who their fingers badly burnt in the past must be convinced that contractual terms, once agreed, are not subjected to sudden, unilateral change.

The need for Latin America to provide the best contracts possible becomes more acute given difficult operating conditions in many countries. Governments remain over-bureaucratic and occasionally corrupt, while exploration and production sites can be in remote areas with poor communications.

There are high security risks in Colombia, where ultra-leftist guerrillas prey on the oil and gas sector, and Peru, where Shining Path guerrillas are not a beaten force. Two failed coups in 1992 in Venezuela did not directly affect the oil and gas sector but destabilised the country. In Venezuela the lead-up to the December 3 elections indicated a popular opposition to neo-liberal solutions which is likely to be echoed elsewhere in Latin America in 1994.

It is unlikely that this mood change will result in attempts markedly to change oil and gas policies, though it may limit the extent to which governments such as Colombia can implement plans to make existing and future association contracts more competitive.

Furthermore, the extractive industries are under pressure from environmental and indigenous groups. In Ecuador, the allocation of new oil exploration blocks in January is prompting increased controversy over the environmental impact of oil operations, particularly in Amerindian areas. Amerindian representatives began legal proceedings against Texaco in New York on November 3 in a bid to win $1.5bn-worth of compensation for environmental damage. This has implications for the region as a whole, and companies can help themselves by strict environmental controls and good relations with the grassroots in their areas of operation.

In general, nothing succeeds like success. The reawakening of interest in Latin America was guaranteed in 1992 when a British Petroleum-led consortium discovered a big field in eastern Colombia, since identified as one of the Western Hemisphere's largest finds for 20 years.

BP hopes to reach production of 150,000 b/d from Cusiana by the end of 1995 (this would represent a third of national production at today's levels), rising to 500,000 b/d thereafter. More such oil and gas finds would have a galvanising effect in the country concerned and sustain interest in Latin America as a whole.

Under these circumstances, oil and gas companies will continue to tolerate difficult operating conditions if host governments behave supportively and avoid arbitrary actions.

□ *The writer is deputy head of research at Control Risks Information Services*

US majors make the best of a tough situation, says **Richard Waters**

Taking the long view

Like tankers moving calmly over choppy waters, the giant US energy groups pretend that they float serenely above the turbulence of the world's troubled oil markets. In reality, their progress is not so smooth.

True, the latest dip in the oil price is unlikely to interrupt the companies' long-term exploration and production plans – as long as it proves short-lived. But it will force the oil majors to give a further painful turn of the screw to the extensive cost-cutting they have already undertaken. And it will make more unattainable the goal of achieving a satisfactory return on capital.

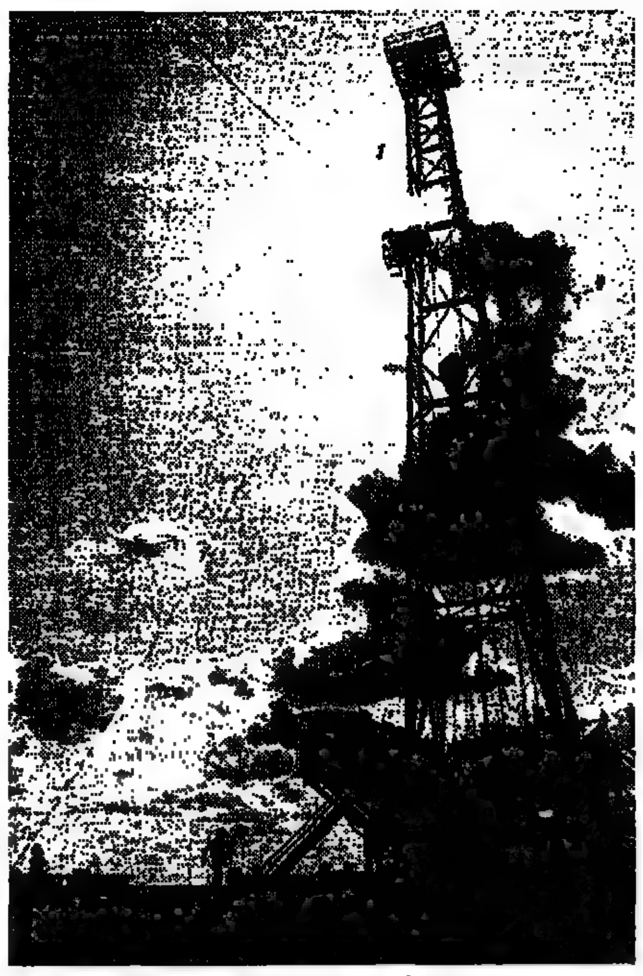
Most say their investment plans, while based on an oil price somewhat higher than the current level, are tested against prices of $15 a barrel or less. That makes them able to withstand troughs in the oil market. Nor do the big oil groups believe prices will stay at present levels for a sustained period.

"We don't see any deep fundamental change in our view [as a result of the recent price fall]," says Mr Ken Haley, manager of energy forecasting at Chevron. "The market is at the lower end of its long-term sustainable level," which Chevron puts at $18-$23 a barrel. Mr Alfred DeCrane, chairman and chief executive of Texaco, also expresses optimism about the price of oil: "We haven't bet the store on it going up – but I haven't sold my stock."

He adds, though, that in the short term, lower prices mean "we won't be getting in the front door what we thought we would be getting".

The fall in upstream earnings as a result of lower oil prices will put the energy groups under even greater pressure to husband their cash resources to support the investments necessary for long-term success. For two reasons, those investments are likely to get bigger rather than smaller.

First, exploration and development spending is being ploughed into ever-bigger ventures outside the US in pursuit of the sort of massive discoveries which will provide long-term returns. Most mature US fields are no longer worth developing for big companies with large overheads to cover, while potential new large finds in Alaska or beyond the US's continental shelf are put out of reach by environmental concerns.



Drilling in Texas: big companies prefers to explore overseas

A falling oil price has further reduced the attractions of exploring for oil in the US. Tax rates on oil production in the US are lower than in most overseas areas: this means that, when prices fall, the producer suffers more. In overseas markets, more of that pain is born by the taxpayer (*the opposite is true when* prices rise.)

Not surprisingly, with the exception of a handful of giant fields in deep water areas of the Gulf of Mexico, all the talk in the US now is of the development work in the former Soviet republics, the East China Sea or the North Sea. Investment budgets have followed this change in emphasis.

Texaco's capital *spending* in the US has averaged $1.77bn a year over the past five years and is projected to continue unchanged at this level for the next five. Investment outside the US, by contrast, is expected to rise from $1.45bn a year to an average $2.12bn. Likewise, Chevron says three quarters of its $2.6bn capital investment on upstream activities *this year has been spent* outside the US.

To support this move overseas, and at the same time cut costs, most US groups have disposed of marginal on-shore US fields. Texaco had 1,000 US oil and gas fields three years ago: by the end of next year, the number will be down to under 500.

The second significant need for cash is in the US, where ever-more demanding environmental standards are forcing companies to upgrade their refineries both to produce cleaner fuels and to cut their own emissions.

Few companies think they will be able to recover through higher fuel prices much of what they spend on revamping their refineries. Chevron, the largest refiner in the US, has put two refineries up for sale, representing around a quarter of its US refining capacity.

"It may not make sense to invest in all sites," says Mr Donald Schmude of Texaco, which is also reviewing whether it can afford to *upgrade all its US refinery* facilities.

In part, the refinery sales are part of a broader rationalisation of the US refining and marketing system. A flat gasoline market has forced companies to rethink their marketing strategies, concentrating their service stations into regional groupings close to their own refineries in an effort to cut costs and build market share. Service stations or refineries that do not fit into this pattern have been sold first.

So far, refineries have changed hands rather than close down altogether. That could change, though, when the next phase of federal rules on gasoline standards comes into force at the beginning of 1995, says Mr DeCrane of Texaco: "*the need to spend to keep* those refineries open will rise, and there will be closures of refineries in the US."

Against a domestic background of shrinking exploration and production and a downstream business facing significant (and probably irrecoverable) investment, it is not surprising that the US energy industry is living in reduced circumstances. By building reserves abroad, though, US oil is laying down the foundation for a more significant international presence well into the 21st century.

Saudis strive for stability

□ Contd. from facing page
was immediately placed under review by the Aramco management, and there it has remained for the time being. Foster Wheeler, the US engineering consultants who had been hired to oversee the Samarec plan, were released. Aramco officials have said only that an upgrade of some form will eventually proceed, something many in the industry agree is necessary.

But to date the sole specific upgrading project is that being overseen by Brown and Root, the US engineers, to enhance quality at the Ras Tanurah plant – a $1-$1.2bn project which will be under way early next year.

Meanwhile, Aramco's ambitions further to integrate its international operations took a knock in early November when long publicised plans for a $10bn joint venture refining project with a trio of Japanese oil companies fell foul of internal disagreement among the Japanese partners and was cancelled.

The project would have further consolidated Aramco's aim of securing supplies of its crude to refining contracts close to its main consumer markets. The policy began in 1988 with Aramco's 50-50 venture with Texaco, creating Star Petroleum to serve markets in the US eastern seaboard. A 35 per cent share in Ssangyong, the South Korean oil group, followed in 1991 with the same intent. The Japanese deal had been seen as the next natural step.

However, Saudi officials say that talks are advanced with two southeast Asian oil companies to replace the cancelled project with one of equivalent scale and scope. One of the potential partners is understood to be Nippon Oil, one of the three Japanese groups in the original consortium.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 10 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 10 / Frs.)

[illegible]

DENMARK (Dec 10 / Kr)

[illegible]

FINLAND (Dec 10 / Mka)

[illegible]

FRANCE (Dec 10 / Frs.)

[illegible]

GERMANY (Dec 10 / Dm.)

[illegible]

ITALY (Dec 10 / Lire)

[illegible]

NETHERLANDS (Dec 10 / Fls.)

[illegible]

NORWAY (Dec 10 / Kroner)

[illegible]

SPAIN (Dec 10 / Pts.)

[illegible]

SWEDEN (Dec 10 / Kronor)

[illegible]

SWITZERLAND (Dec 10 / Frs.)

[illegible]

PACIFIC

JAPAN (Dec 10 / Yen)

[illegible]

HONG KONG (Dec 10 / HK$)

[illegible]

MALAYSIA (Dec 10 / MYR)

[illegible]

SINGAPORE (Dec 10 / S$)

[illegible]

AUSTRALIA (Dec 10 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 10 / Can $)
4 pm close

[illegible]

MONTREAL (Dec 10 / Can $)
4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Dec 10 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1993. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

FT FREE ANNUAL REPORTS SERVICE
You can obtain the current annual reports of companies annotated with ♣. Ring 081 770 0770 or fax 081 770 3822, quoting FT Japan. If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822, quoting FT Japan. The Reports will be sent on the next working day subject to availability.

■ TOKYO - MOST ACTIVE STOCKS: Friday, December 10, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	8.5m	313	+5	Mitsubishi Heavy	6.1m	640	+2
Hitachi	7.0m	810	+24	Mitsui Elec	5.1m	526	+32
Fujitsu	6.4m	815	+33	Matsushita	4.9m	1,480	+30
Toshiba Corp	5.6m	673	+5	NKK Corp	4.8m	237	+2
Suzuki Motor	5.6m	1,020	+36	NEC Corp	4.4m	850	-30

INDICES

	Dec 10	Dec 9	Dec 8	1993 High		1993 Low	
Argentina							
General (29/12/77)	(u)	18442.3	(c)	18442.30	10/12	12167.66	8/3
Australia							
All Ordinaries(1/1/80)	2094.9	2095.7	2096.0	2132.40	1/11	1495.00	13/1
All Mining(1/1/80)	949.1	951.4	931.5	981.40	9/12	584.70	13/1
Austria							
Credit Aktien(30/12/84)	422.22	422.73	(c)	424.59	3/11	300.26	14/1
Traded Index(2/1/91)	1095.75	1096.62	(c)	1099.62	9/12	712.06	15/1
Belgium							
BEL20 (1/1/91)	1423.75	1432.11†	1433.77	1438.42	6/12	1125.46	4/1
Brazil							
Bovespa (29/12/83)	(u)	23469.0	29116.0	97300.00	26/8	714.32	4/1
Canada							
Metals Mins♣(1975)	3497.71	3493.08	3515.57	3518.57	8/12	2743.31	21/1
Composite♣ (1975)	4280.30	4290.60	4307.70	4307.70	8/12	3275.80	21/1
Portfolio§§ (4/1/83)	2054.53	2054.58	2069.53	2069.53	8/12	1720.97	21/1
Chile							
IPGA Gen (31/12/80)	(u)	3394.6	(c)	3394.60	10/12	2612.69	10/5
Denmark							
CopenhagenSE(3/1/83)	352.52	353.16	350.24	366.14	4/11	281.60	4/1
Finland							
HEX General(28/12/90)	1550.0	1566.9	1567.5	1607.70	3/11	843.10	22/1
France							
CAC General(31/12/81)	-	-	-	609.73	28/10	471.24	13/1
CAC 40(31/12/87)	2193.13	2211.40	2205.31	2221.86	22/10	1772.21	29/1
Germany							
FAZ Aktien(31/12/58)	822.25	827.94	822.73	827.94	9/12	590.52	14/1
Commerzbank(1/12/53)	2366.3	2372.4	2357.5	2372.40	9/12	1684.30	14/1
DAX (30/12/87)	2161.13	2175.60	2148.13	2175.60	9/12	1516.50	13/1
Greece							
Athens SE(31/12/80)	912.43	907.92	911.54	944.44	13/8	667.32	5/1
Hong Kong							
Hang Seng(31/7/64)	10228.11	9790.20	9750.23	10228.11	10/12	5437.80	4/1
India							
BSE Sens.(1979)	3401.9	3329.5	3310.2	3401.90	10/12	2100.67	23/4
Indonesia							
Jakarta Comp.(10/8/82)	523.46	525.32	523.32	538.46	22/11	273.31	5/1
Ireland							
ISEQ Overall(4/1/88)	1822.93	1814.37	1807.42	1848.27	3/11	1191.19	11/1
Italy							
Banca Comm Ital (1972)	583.11	584.27	(c)	632.88	30/8	446.33	6/1
MIB General (4/1/93)	1231.0	1274.0	(c)	1380.00	30/8	952.00	11/1
Japan							
Nikkei 225 (16/5/49)	17237.43	17061.91	16507.05	21148.11	13/9	16078.71	29/11
Nikkei 300 (1/10/82)	270.32	267.18	259.21	306.84	10/11	248.64	29/11
Topix (4/1/68)	1450.71	1437.74	1395.54	1698.67	3/9	1250.06	25/1
2nd Section (4/1/68)	1874.41	1853.39	1820.04	2384.97	7/6	1651.72	26/1
Malaysia							
KLSE Comp.(4/4/86)	1075.85	1067.34	1060.73	1075.85	10/12	614.28	13/1
Mexico							
IPC (Nov 1978)	(u)	(u)	2433.27	2433.27	8/12	1604.16	29/2
Netherland							
CBS TtlRtnGen(End 83)	407.5	417.6	420.6	420.60	8/12	286.70	4/1
CBS All Shr (End 83)	270.7	270.7	272.7	272.70	8/12	198.60	13/1
New Zealand							
Cap. 40 (1/7/86)	2103.87	2108.59	2097.26	2203.89	2/11	1485.27	21/1
Norway							
Oslo SE(Ind)(2/1/83)	996.24	1000.86	986.77	1006.23	18/11	689.60	22/1
Philippines							
Manila Comp (2/1/85)	2513.29	2510.82	2518.82	2518.82	8/12	1270.60	4/1
Portugal							
BTA (1977)	2398.8	2549.8	(c)	2600.60	9/8	1699.26	14/1
Singapore							
SES All-S'pore(2/4/75)	509.46	576.00	560.51	609.46	10/12	364.10	13/1
South Africa							
JSE Gold (28/9/78)	2050.0♥	2064.0	1990.0	2369.00	30/7	775.00	6/1
JSE Indl. (28/9/78)	5057.0♥	5072.0	5025.0	5072.00	9/12	4303.00	19/4
South Korea							
KoreaCmpExt(4/1/80)**	861.72	843.93	836.71	881.22	10/12	605.60	6/3
Spain							
Madrid SE (30/12/85)	309.06	308.08	(c)	319.29	22/10	215.60	4/1
Sweden							
AffarsvardIGen (1/2/37)	1350.6	1360.4	1369.2	1435.10	4/11	878.10	28/1
Switzerland							
Swiss Bk Ind (31/12/58)	1248.73	1244.94	1237.36	1248.73	10/12	864.50	11/1
SBC General (1/4/87)	976.40	975.01	970.82	976.40	10/12	678.70	11/1
Taiwan							
Weighted Pr (30/6/66)**	4644.83	4690.28	4692.11	5012.38	7/4	3098.42	9/1
Thailand							
Bangkok SET (30/4/75)	(c)	1490.63	1436.92	1490.63	9/12	818.84	1/6
Turkey							
Istanbul Chp (Jan 1986)	17591.8	17826.7	17935.6	18877.10	30/11	2085.93	1/1
WORLD							
MS Capital Int (1/1/70)♣	593.8*	591.8	587.7	592.19	15/10	498.90	13/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1415.61	1418.86	1416.22	1418.86	8/12	1053.02	13/1
Euro Top-100 (26/6/90)	1181.31	1189.00	1188.25	1189.00	9/12	882.73	13/1
JCapitlDrgns (31/12/88)	(u)	329.49	323.04	329.49	10/12	188.92	4/1
Barings Emerg.(7/1/92)	151.79	151.89	150.65	151.89	9/12	98.81	4/2

** Sat Dec 4 : Taiwan Weighted Price 4609.73, Korea Comp Ex 851.52. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♣ Toronto. (c) Closed. (u) Unavailable. ♥ Subject to official recalculation.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	2217.0	2213.0	-11.0	2226.0	2209.0	26,654	38,241
Jan	2229.5	2224.5	-11.0	2236.5	2223.5	4,488	5,999
Feb	2241.0	2236.5	-11.0	2241.0	2241.0	1	150
Mar	2253.0	2248.0	-11.0	2259.0	2245.5	4,080	14,089

Open interest figures for previous day.

US INDICES

Dow Jones	Dec 10	Dec 9	Dec 8	1993 High	1993 Low	Since compilation High	Since compilation Low
Industrials	3740.67	3729.78	3734.53	3740.67 (10/12)	3241.95 (20/1)	3740.67 (10/12/93)	41.22 (2/7/32)
Home Bonds	111.29	111.02	110.89	111.39 (10/12)	103.49 (11/1)	111.39 (10/12/93)	54.99 (1/10/81)
Transport	1763.83	1765.84	1767.46	1770.67 (2/12)	1453.84 (4/1)	1770.67 (2/12/93)	12.32 (8/7/32)
Utilities	224.78	224.95	226.14	256.46 (31/8)	217.74 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3758.94 (3754.40) Low 3704.31 (3708.94) (Theoretical)
Day's high 3741.51 (3746.70) Low 3723.61 (3725.86) (Actual)

Standard and Poors	Dec 10	Dec 9	Dec 8	1993 High	1993 Low	Since compilation High	Since compilation Low
Composite ‡	463.93	464.18	466.29	470.06 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials‡	536.89	536.25	539.62	540.35 (16/11)	496.46 (28/4)	540.35 (16/11/93)	3.62 (21/6/32)
Financial	44.15	44.48	44.86	48.49 (29/9)	39.89 (8/1)	48.49 (29/9/93)	8.64 (1/10/74)
NYSE Comp.	256.83	257.00	257.57	260.48 (15/10)	236.21 (8/1)	260.48 (15/10/93)	4.46 (28/4/42)
Amex Mkt Val	468.28	467.31	468.67	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Comp	768.84	761.49	767.89	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

■ RATIOS

	Dec 3	Nov 26	Nov 19	Year ago
Dow Jones Ind. Div. Yield	2.70	2.71	2.71	3.13
	Dec 8	Dec 1	Nov 24	Year ago
S & P Ind. Div. yield	2.38	2.41	2.40	2.85
S & P Ind. P/E ratio	27.41	27.08	27.14	27.71

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	464.50	463.90	-0.50	464.70	462.30	39,284	103,844
Mar	465.40	464.90	-0.45	465.85	463.25	64,929	101,211
Jun	465.70	465.80	-0.55	466.55	464.30	71	2,328
Sep	467.40	466.90	-0.45	467.55	465.55	7	642

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Merck	4,500,700	33	-⅛
Albertsons	3,938,300	6⅝	+⅛
IBM	3,852,300	55¼	+1⅝
Hanson	3,824,600	19⅝	-⅛
Chrysler	3,174,200	56⅝	+3⅞
Borden	3,142,300	18⅛	+⅛
Telefonos	2,943,600	61	+⅛
Paramount	2,591,000	81¼	-⅛
Abbott Labs	2,357,900	28⅝	-⅛
EMC Corp	1,894,100	31	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Dec 10	Dec 9	Dec 8
New York SE	238.089	270.673	304.256
Amex	15.466	18.410	20.398
NASDAQ	44	302.738	293.636

NYSE	Dec 10	Dec 9	Dec 8
Issues Traded	2,707	2,886	2,691
Rises	994	873	1,048
Falls	1,097	1,153	991
Unchanged	656	664	652
New Highs	69	90	89
New Lows	48	35	22

† Correction. * Calculated at 15.00 GMT. @ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

هكذا من الاصل

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0898) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

our ow
of the
Times

T

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

Royal Heritage Life Assurance Ltd

Scottish Provident Group - Contd.

Swiss Life (UK) PLC

Century Life International Ltd - Contd.

Eagle Star Intl Life

Johnson Fry Asset Managers Plc

Knight Williams & Company Ltd

Lloyds Intl Money Market Fund Ltd

Federated International Funds Plc

GAM Fund Management Ltd (u)

Ulster Bank Investment Services

Yellow Sea Investment Company PLC

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

ISLE OF MAN (REGULATED)(**)

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

IRELAND (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-Line
Barclays Intl Funds				
Asian Selection Funds				
China	$11.083	11.683	0.0	49155
Hong Kong	$43.219	45.494	0.0	44544
Indonesia	$14.378	15.138	0.0	44556
Japan	$9.087	9.575	0.0	49156
Korea	$12.677	13.344	0.0	44557
Malaysia	$30.628	32.237	0.0	44696
Philippines	$26.752	27.160	0.0	44699
Singapore	$17.545	18.469	0.0	44700
Thailand	$35.068	36.904	0.0	44717
South East Asia	$38.880	40.937	0.0	44718
US Dollar Liquidity	$9.500	9.875	0.41	44875
Cater Allen Investment Management (CI)				
CA Gilt Income	96.10	6.36	15.67	44835
CA Equity Grth	£4.94	5.40	2.04	44832
Citibank (CI) Ltd "Citifunds"				
Short term Investment Funds				
Irish £ Dec 9	140.3450		-	44841
Equity Funds				
Japan Equity Dec 9	58.7068		-	44846
US Em Hlth Dec 13	$21.6717		-	44849
US Em Tech Dec 13	$26.9951		-	44851
Citicorp Dec 13	$35.1865		-	44852
Bond Funds				
HYB (B) Dec 13	$91250.6300		-	44856
Special Assets (B) Dec 1	FFr11651.3190		-	49157
Citibank N.A.				
Libra 2000 Oct 31	$134.37		-	49158
Libra 3000 Intl Oct 31	$134.37		-	48159
Coutts & Co (Jersey) Fund Managers Ltd				
Ashburton Replica Portfolio Ltd	13.75	14.33	-	47735
Ashburton Replica Pfolio Ltd $	$12.61	13.04	-	47736
EBC Fund Managers (Jersey) Ltd				
EBC Traded Currency Fund Ltd*				
Income	$14.52	14.985	1.85	44863
Capital	$22.87	23.576	-	44864
*Offer price includes 3% prelim. charge				

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 10		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. index
Europe													
Austria	(Sch)	17.95	-0.06	780 - 790	17.92	17.81	17.8608	-0.7	17.8737	-0.5	-	-	114.4
Belgium	(BFr)	53.10	-0.25	305 - 315	53.25	53.05	53.185	-1.9	53.33	-1.7	53.73	-1.2	113.0
Denmark	(DKr)	9.9375	+0.0525	325 - 425	9.9720	9.9175	9.9583	-2.3	9.9876	-2.0	10.0706	-1.3	115.5
Finland	(FM)	8.5225	-0.048	075 - 375	8.5556	8.5075	-	-	-	-	-	-	79.9
France	(FFr)	8.6975	-0.04	925 - 025	8.7305	8.6855	8.7082	-1.2	8.7228	-1.2	8.7483	-0.8	108.1
Germany	(DM)	2.5400	-0.01	375 - 425	2.6520	2.5325	2.5416	-0.8	2.5446	-0.7	2.5458	-0.2	124.0
Greece	(Dr)	382.75	-2.25	230 - 320	384.20	382.20	-	-	-	-	-	-	-
Ireland	(I£)	1.0520	-0.002	515 - 525	1.0570	1.0500	1.0527	-0.9	1.0542	-0.8	1.0591	-0.7	102.3
Italy	(L)	2504.00	-5.5	350 - 450	2509.65	2494.45	2510.4	-3.1	2523.85	-3.2	2579.85	-3.0	76.2
Luxembourg	(LFr)	53.10	-0.25	305 - 315	53.25	53.05	53.185	-1.9	53.33	-1.7	53.73	-1.2	113.0
Netherlands	(Fl)	2.8425	-0.01	375 - 475	2.8540	2.8370	2.8431	-0.3	2.8438	-0.2	2.8425	0.0	119.3
Norway	(NKr)	11.0225	-0.06	175 - 275	11.0875	11.0015	11.0287	-0.7	11.0325	-0.4	11.0227	0.0	95.8
Portugal	(Es)	258.30	-0.75	880 - 980	260.25	258.80	260.74	-6.7	263.075	-5.8	-	-	-
Spain	(Pta)	207.60	-0.65	745 - 775	208.60	207.30	208.27	-3.9	209.525	-3.7	214.365	-3.3	85.7
Sweden	(SKr)	12.4525	+0.035	475 - 575	12.5140	12.3855	12.475	-2.2	12.505	-1.8	12.635	-1.5	73.0
Switzerland	(SFr)	2.1775	-0.0175	725 - 825	2.1910	2.1710	2.1752	1.3	2.1712	1.2	2.1485	1.3	116.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.5
Ecu	-	1.3170	-0.0055	165 - 175	1.3210	1.3135	1.3152	-1.1	1.3204	-1.0	1.3248	-0.6	-
SDR†	-	0.929822	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4930	+0.0005	925 - 935	1.4975	1.4900	-	-	-	-	-	-	-
Brazil	(Cr)	392.85	+5.45	280 - 290	394.00	387.00	-	-	-	-	-	-	-
Canada	(C$)	1.9870	+0.008	865 - 875	1.9970	1.9825	1.9844	1.6	1.9805	1.3	1.9745	0.6	91.1
Mexico	(New Peso)	4.6565	+0.0145	550 - 580	4.6880	4.6470	-	-	-	-	-	-	-
USA	($)	1.4950	-0.0005	945 - 955	1.5010	1.4925	1.492	2.4	1.4878	2.0	1.4767	1.2	86.7
Pacific/Middle East/Africa													
Australia	(A$)	2.2310	+0.01	295 - 325	2.2395	2.2230	2.2268	0.7	2.2278	0.6	2.2277	0.1	-
Hong Kong	(HK$)	11.5540	+0.0085	535 - 545	11.5920	11.5275	11.5392	1.5	11.5082	1.6	11.4129	1.2	-
India	(Rs)	46.85	-	680 - 690	47.05	46.80	-	-	-	-	-	-	-
Japan	(Y)	[illegible]											
Malaysia	(M$)	[illegible]											
New Zealand	(NZ$)	[illegible]											
Philippines	(Peso)	[illegible]											
Saudi Arabia	(SR)	[illegible]											
Singapore	(S$)	[illegible]											
S Africa (Com.)	(R)	[illegible]											
S Africa (Fin.)	(R)	[illegible]											
South Korea	(Won)	[illegible]											
Taiwan	(T$)	[illegible]											
Thailand	(Bt)	[illegible]											

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

D-MARK FUTURES (IMM) DM 125,000 per DM

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

STERLING FUTURES (IMM) £62,500 per £

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

UK INTEREST RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on page 30 in today's edition.

£ Pound in New York

FIXED INTEREST RATES

MONEY RATES

£ LIBOR FT London

EURO CURRENCY INTEREST RATES

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

US TREASURY BILL FUTURES (IMM) $1m per 100%

STOCK EXCHANGES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

STOCK INDICES

BASE LENDING RATES

BANK RETURN

LONDON RECENT ISSUES: EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS - Cont.

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by National Securities Limited as a guide only. See guide in London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by National Securities Limited as a guide only. See guide in London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ)
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ● Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ *Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.*
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: **Roxboro** (Electronics), **Hiscox Select and Independent** (Insce Composite), **Abtrust Emrg Economics Ord & Wts** (Inv Trusts), **Charles Sidney** (Motors), **Coal Invs** (Other Indls) and **Allders** (Stores).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 770 0770 (open 24 *hours including weekends) or fax 081 770 3822, quoting* the code FT8633. (If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822) Reports will be sent *the next working day, subject to availability. If faxing* please remember to state the weekly changing FT code above and also your post code.

FT Cityline

For up-to-the-second share *prices* call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 36p per minute cheap rate and 48p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close December 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	1993 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14 5/8	11 1/2	AAR	0.48	3.4	706	108	14 1/4	14	14 1/8	-1/8
28 3/8	12 3/4	A L Labs A	0.18	1.3	31	851	13 1/2	13 1/8	13 1/8	+1/4
67 1/4	64 5/8	AMP	1.60	2.7	21	2374	60	59 1/2	59 7/8	-5/8
72 1/4	55 1/2	AMR			54	2171	68 1/8	67 1/4	68 3/8	+3/4
3 7/8	1 3/4	ARX			14	121	3 1/2	3 1/4	3 1/2	+1/8
51 1/2	29 7/8	ASA	2.00	4.1	32	407	49 5/8	49 1/8	49 1/4	-1/4
30 3/4	22 5/8	AbbottL	0.68	2.4	17	21097	29 1/2	28 1/2	28 1/2	-3/4
12 5/8	8 1/4	Abitibi Pr	0.50	4.4	7	32	11 1/2	11 1/4	11 1/4	
15 5/8	8 1/4	Acptncain			20	40	12 1/4	12 1/4	12 1/4	
36	25 1/2	ACE Ltd	0.40	1.4	5	253	29 3/8	29 1/8	29 1/2	-1/8
12 1/4	10 3/4	ACM Cvt In x	1.09	9.2		518	11 7/8	11 3/4	11 7/8	
10 1/8	9 1/8	ACM GvOpp x	1.59	16.2		83	10	9 3/4	9 7/8	+1/8
10 3/8	8 3/4	ACM Gvt Sp x	0.96	9.4		175	u10 3/8	10 1/4	10 1/4	
12	10 1/2	ACM Gvt Se x	1.09	9.1		177	u12	11 7/8	12	+1/4
12 1/4	9 5/8	ACM Man x	2.56	23.0		546	11 1/8	11	11 1/8	+1/8
9 3/8	8 5/8	ACM Mosgd x	0.72	7.8		212	9 1/4	9	9 1/4	+1/4
12 3/8	7 3/4	AcmeClv	0.44	4.7	12	295	9 1/2	9 3/8	9 3/8	-1/4
11 3/8	6 3/8	Acme Elect			40	30	8 3/4	8 5/8	8 5/8	+1/8
27 5/8	18 3/8	Acordia	0.44	1.9	13	25	23 1/2	23 1/2	23 1/2	+1/4
16	10 3/8	Acuson			57	286	12 3/4	12 1/2	12 5/8	+1/8
21 3/4	17 3/4	Adams Expr	0.52	2.9	0	154	18 1/8	18	18 1/8	
66 3/4	45 1/2	Ad Millen	3.00	6.4		78	47	46 3/4	47	
32 3/4	17 1/2	AdvMic	[illegible]	[illegible]	8	4589	17 7/8	d17 1/2	17 5/8	+1/8
8 1/8	5 1/2	Advest Grp	0.16	2.4	12	60	6 3/4	6 5/8	6 3/4	+1/8
24 3/4	14 1/4	Advo Inc	0.08	0.5	78	135	16 3/4	16 1/2	16 1/2	-1/4

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

4 pm close December 10

Continued from previous page

[illegible]

1993 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close	Chg
90	80⅞	Xerox	3.00	3.4	35	3947	u90	87½	88¼	-1¼
55½	51½	Xerox4.125	4.12	7.7		z100	53½	53½	53½	+⅛
50½	31¼	Xtra Corp	0.48	1.0	23	438	u50⅝	49⅞	50¼	-⅛
29¼	19½	Yankee Egy	1.16	4.5	15	28	25⅞	25⅝	25⅝	
1⅝	⅝	Zapata			17	781	1⅝	1¼	1¼	
10½	5⅞	ZeinEl			2	378	7⅝	7¼	7¼	-⅛
29¼	19⅝	Zenith Nat	1.00	4.5	10	51	22⅝	22¼	22¼	-⅜
8	6½	Zenix Inc	0.82	10.6		164	7¾	7⅝	7⅝	+⅛
16⅝	12¾	Zero	0.40	2.6	19	30	15⅝	15¼	15½	-¼
40¼	25⅞	Zurn Ind	0.88	3.3	57	213	26⅝	26¼	26½	-⅛
13¾	12⅝	Zweig Fund	1.20	8.6		120	u13¾	13⅝	13⅝	
10⅞	9⅞	Zweig Tot	0.96	9.0		161	10¾	10⅝	10⅝	-⅛

Price data supplied by Telekurs

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close December 10

[illegible]

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Cal Engy		17	1344	17¾	17⅝	17⅝	
Calprop		0	11	1	1	1	
Cambrex	0.30	13	z100	20	20	20	
Can Marc	0.28	14	10	10⅜	10⅜	10⅜	+¼
Chmbrs A	0.01	8	601	4¼	4⅛	4⅛	-⅛
Chambers		9	9	4¼	4⅛	4¼	+⅛

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Garan	0.80	9	25	33	32¾	33	
Giant FdA	0.70	17	1287	25¼	24¼	25⅛	+1
Glatfltr	0.70	30	198	19	18¾	18⅞	-¼
Goldfield		11	221	⅝	⅝	⅝	
Greenman		28	262	6⅜	6⅛	6⅜	+⅛

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Numac O&G		82	15	6⅝	6⅝	6⅝	
NV Ryan		1	1284	⅞	¾	¾	
MSR Expl		2	17	⅞	d½	⅞	
Nat Pat		10	121	4½	4⅞	4⅞	-⅛
New Line		33	204	24	23⅝	23⅞	
NY TimA	0.56	79	945	26⅝	26⅛	26¼	-¼
NthCanOil	0.20	18	7	9¾	9¾	9¾	

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Weatherfd		26	1508	9½	8⅞	9⅛	-¼
Westamer	0.60	19	17	27	26¾	27	+¼
WIRET	1.12	18	219	13	12¾	12⅞	
Worthen	0.30	8	33	21¾	21⅝	21¾	+⅛
Xytronix		7	115	7⅝	7⅝	7⅝	-¼

NASDAQ NATIONAL MARKET

4 pm close December 10

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	17	151	11¾	11¾	11¾	
ACC Corp	0.12	59	5650	19¼	18	19⅛	+1
Acclaim E		36	11522	23½	22⅞	23⅛	-⅜
Acme Mtls		30	193	19½	18	18¾	-⅜
Acxiom Cp		35	36	22½	22	22¾	+¼
Adaptech		16	6259	34⅝	33⅝	33¾	-¼
ADC Tele		32	595	36¼	34¾	35½	-¾
Addington		110	253	18¾	18½	18¾	+¼
Adia Serv	0.16	15	13	23	21	23	
Adobe Sys	0.20	30	3542	22¼	21½	22⅛	+⅜
Advance C		10	153	13⅛	13	13	
Adv Logic		4	332	3½	3⅜	3½	+⅛
Adv Polym		8	138	5⅝	5⅛	5⅝	+⅛
AdvTechLab		49	153	17¼	16¾	16¾	
Advanta	0.20	19	2437	37	34½	35¼	-1¾
Affymax		13	15	17¼	16¾	16¾	-¼
Agency Re		19	1346	u11⅞	11½	11⅝	
AgricoEa	0.10	158	2906	14½	14¼	14¼	-⅛
Akzo ADR	0.78	17	52	48½	46¼	48¼	-¼
Aldus Cp		43	2641	24¼	21¾	22	-1⅝
AlbBld	0.88	18	1535	25¾	24½	25¾	+1¼
Allegh &W		15	29	7	6¾	7	+¼
Allen Org	0.48	13	2	32	32	32	+2
Alkan Ph		5	705	9	8¼	8¾	-¼
AlldCapfl	1.10	12	477	14¼	13½	13½	
Alld Cap	0.90	11	102	13	12⅝	13	
Alsette C	0.32	525	14	5¼	5¼	5¼	
Alta Gold	0.06	3	203	1⅜	1⅜	1⅜	-⅛

[illegible]

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
DauphinDp	0.92	[illegible]					
Deb Shops	0.20	[illegible]					
Dekalb En	0.32	[illegible]					
Dekalb Ge	0.80	[illegible]					
Delchamps	0.44	[illegible]					
Dell Comp		[illegible]					
DeltaGSom	0.16	[illegible]					
Dep Cty	1.00	[illegible]					
Devcon	0.20	[illegible]					
DH Tech		[illegible]					
Diocel B	0.72	[illegible]					
Dig Intl		[illegible]					
Dig Micro		[illegible]					
Dig Sound		[illegible]					
Dig Syst		[illegible]					
Dionex Cp		[illegible]					
Dixie Yrn	0.20	[illegible]					
DNA Plant		[illegible]					
Dollar Gn	0.20	[illegible]					
Dom Bksha	0.44	[illegible]					
Dorch Htn	0.68	[illegible]					
DrecoEngy		[illegible]					
DressBarn		[illegible]					
Drey GD	0.24	[illegible]					
Drug Empo	0.08	[illegible]					
DS Bancor	1.02	[illegible]					
Dunron	0.60	[illegible]					
Durr Fill	0.30	[illegible]					

[illegible]

FT GUIDE TO THE WEEK

13 MONDAY

Trade talks on the brink

From midnight Sunday, the hubbub of voices at Gatt headquarters in Geneva is supposed to be replaced by the scratching of pens, as negotiation stops and final drafting starts. Gatt director Peter Sutherland has said this is necessary to allow staff *to draw up and final texts of the 116-*nation Uruguay Round agreement and produce them in English, French and Spanish versions, in order to be ready for distribution on Wednesday.

On Sunday night, there was still apparent deadlock, as the US and EU failed to agree on audiovisual trade and aircraft subsidies.

Sticky rice: Japan has said it will make an announcement on opening its rice market today. It decided informally to let rice in more than two years ago, but the demands of political theatre have caused repeated delays. Under the proposal, Tokyo will import minimal amounts for six years, after which it will *switch from quotas to tariffs.*

Middle East peace: Due date for Israeli military withdrawal from the Gaza strip and the Jericho area of the West Bank. *It was unclear* Sunday night how far it will be symbolic and how far substantive.

EU tobacco advertising: European Union health *ministers meet in Brus*sels to discuss a draft directive from the European Commission proposing the banning all tobacco advertising, apart from point-of-sale material. It is likely to be opposed by the UK, Germany and the Netherlands.

Car joint venture: General Motors International is to sign a joint venture agreement with the FSO car plant in Warsaw. Initially, 3,000 Astra cars a year will be assembled, after an investment of DM25m ($15m).

Westminster: Michael Portillo, chief secretary to the treasury, testifies on government spending plans in the UK Budget to the cross-party Commons Treasury and Civil Service Committee.

Scott inquiry:

Alan Clark, who was successively trade and defence procurement minister at the time of illegal exports of arms and machine tolls to Iraq, appears before Lord Justice Scott's inquiry into the affair (to Dec 15).

Debt talks: Vietnam is to discuss rescheduling payments on some $500m of its debt with the Paris Club of western creditor nations. Zimbabwe's aid donors are to hold a meeting in Paris chaired by World Bank.

Holidays: Peru (Immaculate Conception), Kenya (National Holiday).

14 TUESDAY

French to vote on Gatt

The French national assembly is expected to hold a vote of confidence on the government's handling of the Gatt negotiations. The ruling conservative coalition has a large majority, so it should easily win.

Prime minister Edouard Balladur's *personal popularity is high, according* to opinion polls. His decision to seek a vote is probably prompted by the desire to spread responsibility for the deal as widely as possible. If it were to go against him, he would have to resign.

Yassir Arafat, chairman of the *Palestine Liberation Organisation,* begins a two-day visit to London. He will address Parliament, meet the Archbishop of Canterbury and hold talks with Prime Minister John Major before leaving for Dublin.

UK distributive trades: The Confederation of British Industry publishes its quarterly survey of the retail, wholesale and motor trades.

US health care reform: The House of Representatives Ways and Means committee plans hearings on the financing of President Bill Clinton's health care reform plan.

US coal strike: Union members are due to vote on an agreement to end the seven-month dispute. It has involved 17,700 workers in seven states and affected about 10 per cent of US coal production.

Gore at large:

US vice-president Al Gore's first extensive *foreign trip* sees him in Moscow two days after the Russian elections. He is there as co-chairman, with Russian prime minister Viktor Chernomyrdin, of the joint commission on energy and space co-operation. He will also prepare for Bill Clinton's visit *in January. At the weekend he has* talks in Bonn with German chancellor Helmut Kohl.

Sakharov prize: The Sarajevo daily newspaper Oslobodjenje is to receive the 1993 Sakharov prize for human rights in Strasbourg. It will be presented to the editor Zlato Dizdarevic by Sakharov's widow Yelena Bonner at a ceremony in Strasbourg.

Roundheads and auctioneers: The Fairfax archive, the largest and *most important collection of documents* relating to the English Civil War, comes under the hammer at Sotheby's in London. The archive focuses on Sir Thomas Fairfax, Cromwell's commander-in-chief. More than 5,000 items are on offer, most estimated at less than £2,000. All told, the archive should make more than £500,000.

15 WEDNESDAY

Crunch time in Geneva

After midnight Washington time, the US administration loses its authority to present to Congress a take-it-or-leave-it package. *Brinkmanship is* likely to continue to the end. Negotiations at Gatt headquarters in Geneva could go on until after 5am local time *on December 16, with a final draft* tabled in Congress shortly thereafter.

If all goes well, the accord comes into force on January 1, when Gatt will also be superseded by the Multilateral Trade Organisation.

Patten goes it alone:

Chris Patten, the governor of Hong Kong (left), submits to the colony's Legislative Council the so-called straightforward sections of his proposals to extend democracy. The bill adopts a single-vote, single-seat system for all elections, and lowers the voting age *from 21 to 18. China* is firmly opposed to the move and says that pushing ahead with the legislation will put an end to negotiations.

Ulster peace moves: *A further* meeting between Irish premier Albert Reynolds and UK prime minister John Major is expected this week. They are trying to produce a peace initiative by Christmas which will persuade the IRA to abandon violence.

UK retail prices: The index for November will have a crucial effect on interest rate expectations. Today's figures are likely to confirm that interest rates could be cut further.

Westminster: *Kenneth Clarke, UK* chancellor, testifies on his recent Budget to the Treasury and Civil Service Committee.

Diet ends: The Japanese parliament is due to conclude for the year, but prime minister Morihiro Hosokawa is expected to seek an extension to enable political reform legislation to be passed. Hosokawa has pinned his future on getting his reform programme through.

The World Bank *publishes its* annual world debt tables. They are expected to show a sustained increase in private capital flows to middle-income countries. However, many severely indebted low-income countries continue to suffer financial problems.

Champagne by any other name: *A French appeal court is to decide* whether Yves Saint-Laurent, the French fashion house, must change the name of its perfume Champagne in France. YSL and Elf Sanofi, its parent company, are locked in a legal battle with the champagne industry, which has objected to the use of the name Champagne for a fragrance.

16 THURSDAY

S Africans demonstrate

Violence could flare as large sections of the nation mark anniversaries – separately. The white right wing plans *a big protest on the Day of the Vow,* when outnumbered Voortrekkers beat the Zulus at Blood River in 1838.

Zulus will be commemorating their wars with the British, whom they massacred at Isandhlwana in 1879. The African National Congress is to parade its military wing, Umkhonto we Sizwe (Spear of the Nation), formed in 1961.

Bundesbank council meeting: The German central bank is to review its M3 target range, currently 4.5 to 6.5 per cent. Hans Tietmeyer, president, has suggested the new target will be close to the current one. The bank could surprise the markets by lowering next year's ceiling to 5.5 per cent, with a rate cut as a *possible accompaniment.*

VW-Opel civil suit: A Frankfurt court is due to rule on the dispute between the two carmakers over *alleged staff-poaching and passing-on* of commercially sensitive information.

UK unemployment: Labour market figures should show unemployment *down further in November after Octo*ber's sharp 49,000 seasonally-adjusted fall with wage inflation staying subdued. A high public sector borrowing requirement in November would further justify last month's tough Budget.

Westminster: The Commons Treasury and Civil Service Committee reports on the Bank of England's future. It is expected to favour making it more independent.

Pre-acquisition provisions: The UK Accounting Standards Board publishes its standard on pre-acquisition provisions in company accounts. It will clamp down on some of the worst accounting abuses, used since the late 1980s to boost profits artificially by releasing provisions when trading results are disappointing.

It is expected to put an end to provi*sions for future losses and* reorganisation expenses after the acquisition of a business being treated as liabilities in the acquired business on the balance sheet of the purchaser's accounts.

Packwood diaries:

The US senate ethics commit*tee goes to* court to force senator Bob Packwood (left) to hand over his private diaries. The Oregon republican is under investigation for sexual harassment. He says the diaries, covering 20 years, may compromise others *on Capitol Hill.*

Holidays: Markets are closed in Bahrain (National Day) and South Africa (Day of the Vow).

Monday is the due date for preliminary agreement in the peace accord between Israel and the PLO

17 FRIDAY

EU steels itself for cuts

European Union industry ministers discuss the troubled steel sector. On the table will be a restructuring plan for Italy's steelmakers agreed with the Commission last week. If the plan receives unanimous approval, the way could be cleared for a *union-wide* rescue plan.

Agreement on state aid is essential to trigger a co-operative programme of production cuts by private steelmakers, which have been suffering from lack of demand and overcapacity.

UK industrial trends: The Confederation of British Industry monthly industrial trends survey looks at growth in output and orders in November. The October survey found *manufacturers'* export order books at their weakest since February.

Boutros Boutros-Ghali, UN secretary general, is scheduled to start a five-day visit to Japan and North and South Korea. The recently added Pyongyang leg of the trip comes at a time of growing international tension over North Korea's nuclear plans.

Westminster: Britain's parliament rises for its winter recess.

18-19 WEEKEND

Serbia goes to the polls

Opinion polls suggest that more than one-third of the electorate will vote for the *Socialist* party of Slobodan Milosevic, the Serbian president, in Sunday's parliamentary elections. Despite monthly inflation of 83,000 *per cent, the fruit of three years of* war and 19 months of sanctions, the opposition remains divided and Milosevic controls the media. The president is not up for election himself.

Guinea election: The west African state holds its first multiparty presidential election on Sunday. President Lansana Conte, who took power in a coup in 1984, faces seven opponents.

Nevada bravado: MGM Grand, the US hotel, casino and travel group owned by the financier Mr Kirk Kerkorian, opens a 5,000-room, 112-acre hotel and theme park in Las Vegas on Saturday. The facility cost $1bn to build and is the largest hotel-casino-theme park in the world.

On Sunday, Las Vegas hosts the draw for the 1994 World Cup soccer finals at Caesar's Palace.

Compiled by Patrick Stiles
Fax: (+44) (0)71 873 3194

ECONOMIC DIARY

Other economic news

Monday: Central bankers hold their monthly meeting at the Bank for International Settlements in Basle. Central bankers from the Group of 10 industrial nations get together today, while tomorrow it is the turn of the European Union.

In Brussels, economics and finance ministers of the European *Union convene for* a long-scheduled session that will have added importance in the aftermath of last week's EU summit.

Tuesday: In the UK, the Confederation of British Industry releases its monthly distributive trades survey which will *highlight retail trends ahead of* Christmas.

Wednesday: In Germany, the second round of wage talks for metalworkers takes place in North Rhine-Westphalia. Governor Mieno of the Bank of Japan gives his regular press conference. In Denmark, par*liament votes on next year's* budget.

Friday: Metal sector wage talks continue in Germany, in the important southern region of Nordwürttemberg-Nordbaden.

In the UK, the CBI's monthly industrial trends survey will *highlight the health of the* manufacturing sector.

Statistics to be released this week

Day Released	Country	Economic Statistic	Previous Actual	Median Forecast
Mon	UK	Nov PPI input m/m	-1.1%	-0.4%
Dec 13	UK	Nov PPI output y/y	4%	3.7%
	UK	Nov PPI output(ex food,drink)	3.2%	3.2%
	UK	Oct manufacturing output m/m	0.4%	0.3
	UK	Oct manufacturing output y/y	1.6%	1.4%
	UK	Oct industrial production	0.1%	0.4%
Tues	US	Nov retail sales	1.5%	0.5%
Dec 14	US	Nov retail sales (ex autos)	0.9%	0.4%
	Japan	Oct machine ord(ex ships)m/m	18.5%	-27.3%
	Japan	Nov trade bal. - custom cleared	$11bn	$8bn
	Japan	Nov WPI y/y	-3.2%	-3.3%
Wed	US	Nov industrial production	0.8%	+0.6%
Dec 15	US	Nov capacity utilisation	82.4%	82.8%
	US	Oct business inventories m/m	0.3	No change
	UK	Nov RPI m/m	-0.1%	0.1%
	UK	Nov RPI y/y	1.4%	1.6%
	UK	Nov RPI (ex mort int. payments)	2.8%	2.8%
	UK	Nov retail sales m/m	0.1%	0.2%
	UK	Nov retail sales y/y	3.2	3.6
	Canada	Nov lead indicator S.A. m/m	0.5%	0.5%
	Spain	Nov CPI y/y	4.6%	4.7%
	Finland	Nov CPI y/y	1.6%	1.6%
Thur	US	Oct merchandise trade balance	-$10.9bn	-$10bn
Dec 16	US	Oct merchandise exports	$38.9bn	$39bn
	US	Oct merchandise imports	$49.8bn	$49.3bn
Thur	US	Money supply data to Dec 6		
Dec 16	US	Initial claims w/e 11 Dec	336,000	335,000
	UK	Nov PSBR	£2.7bn	£2.8bn
	UK	Nov unemployment	-49,000	-10,000
	UK	Oct average earnings	3%	3%
	UK	Oct unit wages 3 monthly y/y	-0.6%	-0.1%
	Canada	Oct manufacturing new orders m/m	1.5%	1.5%
	Canada	Oct manufacturing shipments m/m	1.4%	1.3%
	Canada	Oct merchandise exports SA m/m	4.5%	2%
	Canada	Oct merchandise imports SA m/m	2.4%	1.3%
	Canada	Oct merchandise surplus C$	C$1.05bn	C$1.1bn
	Canada	Oct wage settlement increases	0.2%	1%
	Sweden	Nov CPI y/y	4.3%	4.6%
Fri	US	Nov housing starts	1.4m	1.4m
Dec 17	Canada	Nov CPI - A1 items N.S.A. m/m	0.1%	0.2%
	Canada	Nov CPI -A1 items N.S.A. y/y	1.9%	1.6%
	Canada	Nov CPI ex food/energy N.S.A. y/y	2%	1.9%
During this week...				
	Japan	Nov money supply (M2 & cash) y/y	1.9%	2%
	Germany	Nov WPI	-0.2%	0%
	Italy	Oct industrial production m/m	-0.9%	-0.6%
	Neth'lnd	Nov unemployment three-monthly	8.6%	8.8%
	Switz'ld	Nov trade balance	SFr887m	SFr750m
	Spain	Nov M4 - annualised y/y	12.2%	10.5%

m/m = month on month, y/y = year on year. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

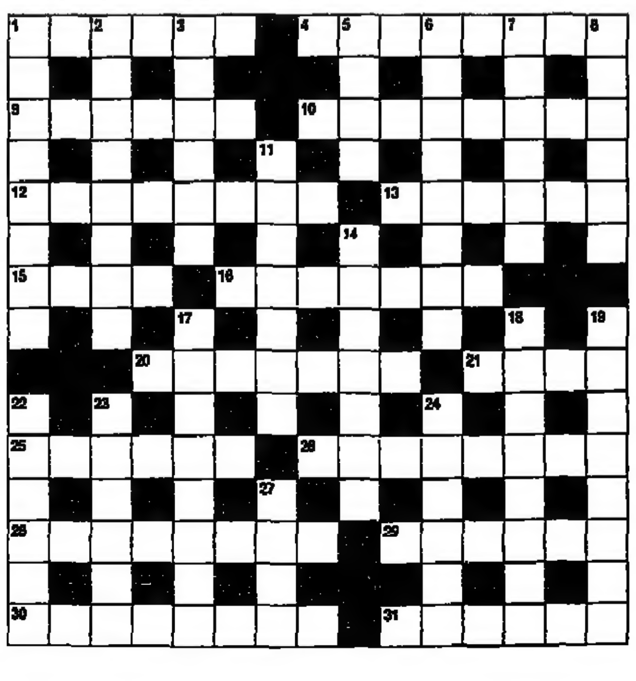
No.8,330 Set by GRIFFIN

ACROSS

1 Having a girl in goal followed (6)
4 Mention brewed tea, saying it soothes (8)
9 To find where I live look the *opposite way* (6)
10 Good man telephoned royal visitor (8)
12 Reproduce muesli at random (8)
13 *Rushes spring back, adjusted* (6)
15 Monster function for retiring engineers (4)
16 Delivering if Green runs out (7)
20 Stop salesmen coming back without one buying? (7)
21 Part about including two articles (4)
25 *Excites leading airman in* flight (6)
26 Being half dead stopped late (8)
28 Apt, in cold, to get wrinkled (8)
29 Carried duck on to island (6)
30 Long seal around old vessels (8)
31 Different books to the girl's (6)

DOWN

1 *Discharge girl that is stand*ing embracing forwards (8)
2 Before lunch takes guides round vessels (8)
3 Some seed I bleached can be eaten (6)
5 Very little first aid given to one standing up (4)
6 Catching up with key, pinch some (8)
7 *Head waiter's forgotten* important number (6)
8 Beat for putting rubbish round hydrant (6)
11 Gazing around a queue (7)
14 *Agree to action about this* being cancelled (7)
17 Estimate value of primate taking pairs in trouble (8)
18 Bearing gift and card volun*teers to leave* (8)
19 They deal with wax, spread or otherwise (8)
22 Sunbathing topless is appealing! (6)
23 *Part of church not hard to* scrub (6)
24 Account for loud noise (6)
27 Head of tribe anxiously hiding (4)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 23, marked Monday Crossword 8,330 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Wednesday December 29.

Name..........

Address..........

Winners 8,318

Catrin Oliver, Cambridge; C.J. Bridgeman, Basingstoke, Hants; M.E. Gill, Cobham, Surrey; R.S. Munro, Chalfont St Peter, Bucks; L.M. Keet, London N1; Philip Revzin, Brussels, Belgium.

Solution 8,318